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# from the editor

JANA MARAIS

a joke was doing the rounds on Twitter this week after President Barack Obama's last State of the Nation speech that, no matter how noble his aspirations, the Republican Party will find a reason to criticise him. Obama: "We want to cure cancer." The Republicans: "Now he wants to take away your cancer!"

The debate in South Africa over the past two months about everything from Nhanhla Nene's sacking to Penny Sparrow and her ilk's indefensible comments on race often felt a bit like the Republicans' reaction above – you can only roll your eyes in despair.

Standard Bank boss Sim Tshabalala's view on race and transformation, published on 12 January, was one of the few welcome exceptions. It's hard to highlight only one paragraph from his piece, but this in particular resonates: "I believe, more than ever, that our individual futures depend on our collective future. Let this be a moment for South Africans to find each other again and to re-dedicate ourselves to building a non-racial and democratic South Africa which is globally competitive, and in which all citizens can enjoy prosperity in a normal society."

Much of these were also themes in Obama's speech (which was made after Tshabalala's article appeared). Obama, for example, also made an appeal for an active citizenry in order to protect America's democracy. "Whatever you may believe, whether you prefer one party or no party, our collective future depends on your willingness to uphold your obligations as a citizen. To vote. To speak out. To stand up for others, especially the weak, especially the vulnerable, knowing that each of us is only here because somebody, somewhere, stood up for us. To stay active in our public life so it reflects the goodness and decency and optimism that I see in the American people every single day."

To varying degrees, the US and South Africa face many similar challenges: racism, poverty, inequality, access to and the cost of higher education, the need for political reform, the need to raise the income of working-class families, a broken immigration system, the challenge to remain globally competitive in a world where globalisation and technology brings constant change.

Let's not be like the Republican Party in our response. ■

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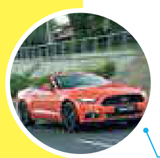


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By Johan Fourie

WORK VISAS

# How foreign skills can help SA grow

Despite our massive skills shortage, highly skilled professionals from overseas are struggling to get visas to work in South Africa.

Last July my university advertised a tenure-track position in the Humanities. We recruited widely and, in line with our goal of positioning Stellenbosch as an internationally reputable university, appointed a US citizen with a PhD from Oxford.

Then the process of applying for a visa started. It has been more than six months since her appointment. Although she was due to start in September, she has had to return to the US, where, as I write in mid-January, she is waiting for feedback from the department of home affairs.

She is not alone. Across SA, universities and corporations are lamenting the slow speed at which visa applications are processed. Since the amended Immigration Act was passed on 22 May 2014, it has become increasingly difficult to obtain a work visa, even for foreign spouses of SA citizens. Part of the reason is that the new process requires communication between the departments of home affairs and of labour, with the latter needed to verify whether the skills are indeed 'scarce'.

This is all the more saddening in a country so desperately in need of all kinds of skills. Those in favour of tougher laws against skilled immigration fail to recognise the immense shortfall in skilled workers across all sectors of the economy. The rapid growth of the SA economy since 1994 has created a huge demand for skilled workers, with institutions of higher learning unable to keep up with demand.

This is clear from a look at unemployment rates. Stellenbosch University economist Hendrik van Broekhuizen calculates that the unemployment rate for South Africans with at least a bachelor's degree is a low 5.9%. Black graduate unemployment is slightly higher at 8.6% because black students are more likely to enrol for courses in the arts, humanities and social sciences, and attend formerly disadvantaged universities, where the quality of degrees is perceived to be lower. But even an 8.6% unemployment rate is vastly superior to the aggregate broad unemployment rate of 41% for black South Africans.

Yet despite employers' need for skilled workers, government seems eager to do everything in its power to isolate SA from the international labour market. According to Gary Eisenberg of law firm Eisenberg de Saude, more than half of all immigration applications have been refused since the new law was enacted. He estimates that foreigners can wait anything between five and 12 months for a decision, and then a similar period for appeals. Those awaiting applications or appeals after their visas have expired can be declared 'undesireable', and prohibited from returning for five years.

If there is a country that should understand how isolation from the global talent pool is bad for growth, it is SA. Apartheid and its discriminatory education policies meant that only a sliver of the population was acquiring the skills necessary to expand the manufacturing and services sector, and grow the economy. After democracy, the need for skills became acute as firms (and universities) had to compete for export markets in a rapidly globalised world, and for a skilled elite that was increasingly mobile. Despite the fact that universities have trained large numbers of black graduates (there are now more black graduates in the labour market than white), the inequalities in the demand for skilled and unskilled workers have largely remained, as the unemployment figures suggest.

A US citizen, employed at Stellenbosch University six months ago, still awaits a work visa.

That's why government's attitude to immigrants is so baffling. Allowing skilled immigrants to work in SA – and making their application process as easy as possible – is what economists like to call low-hanging fruit: one of the easiest ways to significantly improve the prospects of the SA economy. Of course immigrants should not simply substitute for training South Africans too. But denying skilled immigrants the opportunity to work is hurting the ability of the next generation of South Africans to acquire the skills necessary to compete in the global economy.

**Hendrik van Broekhuizen**
Economist at Stellenbosch University

That's exactly the reason why we appointed an Oxford-educated lecturer. The best university departments are those with a diverse faculty who are able to offer their students access to minds trained in the best universities in the world. Such professionals often bring an international network through which different avenues for scholarships and new outside sources of funding can be made available to local students. They are the ones to push their SA colleagues to the boundaries of science, and help them develop new theories, invent and innovate. And they are the ones who will train a new generation of South Africans who can not only participate, but prosper in the economy of the future. ■

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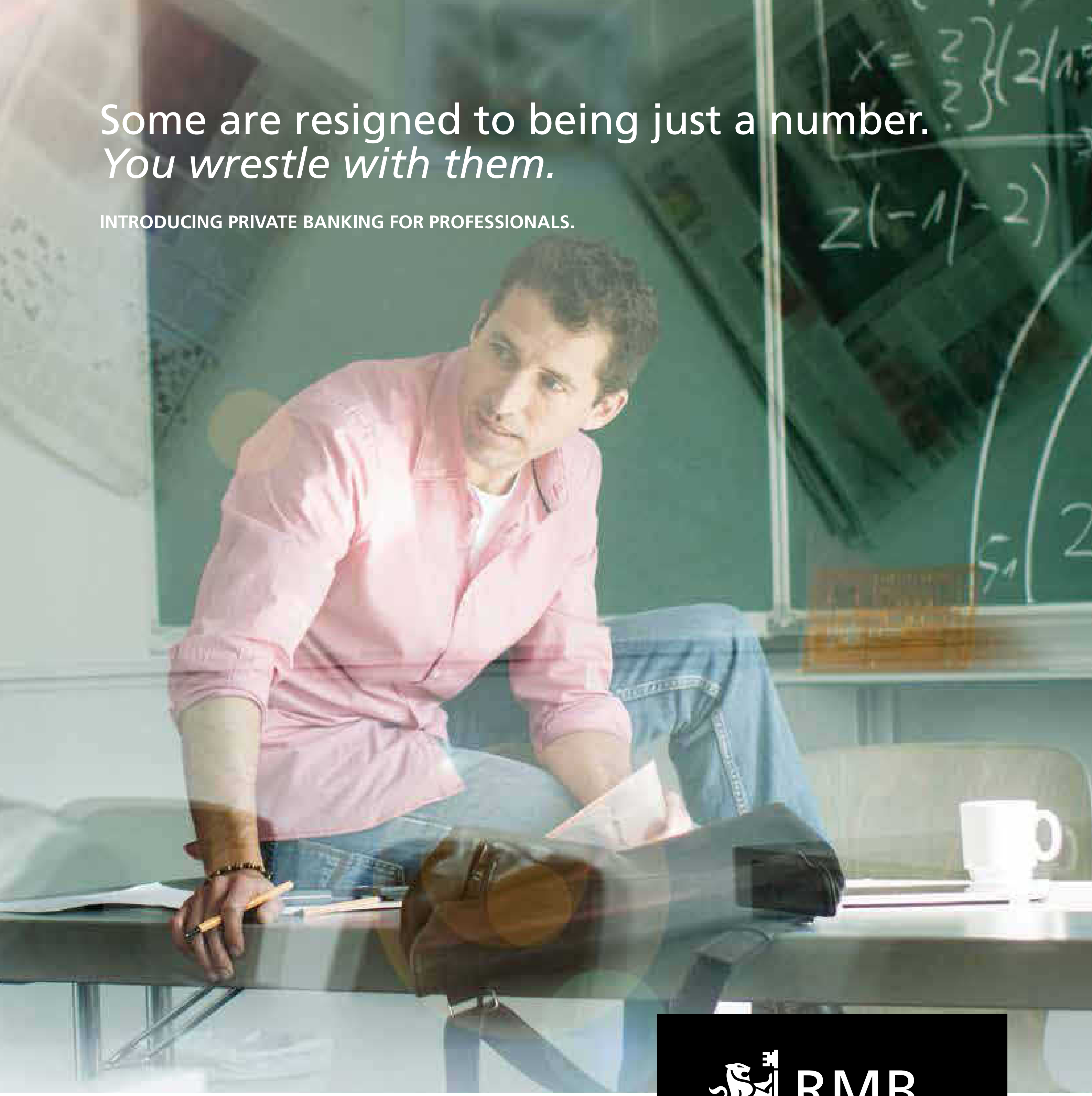
**Johan Fourie** is associate professor in Economics at Stellenbosch University.

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opinion

By Jan de Lange

POLITICS

# Something was amiss at the ANC's Rustenburg celebrations

Zuma's speech at the ANC's recent 104th anniversary party, held in close proximity to the site of the 2012 Marikana massacre, is a sign of the tension that exists in the National Executive Committee.

For a complete outsider it would appear that the ANC's 104th anniversary celebrations in Phokeng, home to the Bafokeng nation, was a success.

The Royal Bafokeng Sports Palace, which accommodates about 44 000 people, was about 90% full when President Jacob Zuma was driven into the stadium at about 11:30, climbed out of his presidential vehicle and did a victory lap on the athletics track to greet the thunderous crowd.

When he started reading the annual 8 January declaration of the ANC's National Executive Committee (NEC) more than an hour later, there were noticeably far fewer people in the stands, but this could be ascribed to the scorching heat.

The crowd was rowdy and for large parts of his speech, Zuma could hardly be heard above the din, despite the PA system. At times, some of the spectators' frustration was tangible. When Zuma touched on the coming municipal elections later this year, you could hear them grumbling.

"Not in this province. Not so soon after Marikana. The people are not going to forget Marikana," said a spectator, who had moments before been part of Zuma's rousing welcome.

This is precisely why the birthday celebrations took place here, scarcely 20km from the Wonderkop hostel and squatter camp where the police shot and killed 34 mineworkers on 16 August 2012. The results of the general election in 2014 show that the ANC was beaten at virtually every polling station in Rustenburg and its surrounds by the Economic Freedom Fighters (EFF) and Bantu Holomisa's United Democratic Movement (UDM).

It is in fact opportunistic of the ANC to hold its rally in the Bafokeng's backyard and not in the Olympia Park stadium in Rustenburg. The Bafokeng Nation, which controls the surrounding Phokeng township, is very careful not to get involved in national politics.

It finds itself in the invidious position owing to the bitterness with which the government is regarded over the Marikana massacre. This bitterness reaches as far as the Eastern Cape where many, maybe even the majority, of the mineworkers in the platinum belt come from.

Every family of the 75 000 members of the Bafokeng Nation living in Phokeng, has a large stand with a house to which they have usufruct. Most of them rent out outbuildings to migrant labourers from the mines and contractors in the area, but it was evident that very few inhabitants of Phokeng attended the rally in their neat, rather luxurious sport stadium.

The previous time that the stadium was filled was in July 2014 – for a mass meeting arranged by the Association of Mineworkers and Construction Union (Amcu) to end the strikes at Anglo American Platinum, Impala Platinum and Lonmin. And at that rally nobody would have dared to turn up in ANC or Cosatu garb...

Very few Phokeng inhabitants were therefore among the more than 40 000 spectators in the stadium dressed in yellow. The spectators were transported to the stadium in hundreds of buses from across the country and from as far afield as Khayelitsha in the Western Cape.

The rally was clearly aimed at electioneering, but it could easily be interpreted as an attempt to intimidate those present and could have a contrary effect on improving the ANC's chances in the Rustenburg area on election day.

"Not in this province. Not so soon after Marikana. The people are not going to forget Marikana," said a spectator, who had moments before been part of Zuma's rousing welcome.

Zuma usually does not hesitate to deviate from written speeches, but this time he kept strictly to the agreed to 8 January declaration of the ANC's highest authority, the NEC. The speech had been discussed incisively the previous day at a meeting of the NEC in Rustenburg before Zuma could deliver it.

It's a sign that there's tension in the NEC – something that has been speculated on since the sacking of Nhlanhla Nene.

The NEC is dominated by Zuma supporters thanks to the strong growth that the ANC has experienced in KwaZulu-Natal, Mpumalanga and the Free State in the run-up to the party's 2012 congress where the current NEC was elected. It is believed that up to 70% of the 86 NEC members are sworn Zuma loyalists.

But there are also conservative experienced people such as Tito Mboweni, the former governor of the Reserve Bank, and Pravin Gordhan, the current minister of finance.

One of the developments that should be keenly watched to see how the wind lies, is the relationship between Gordhan and Zuma stalwart Tom Moyane, head of Sars. Gordhan clearly set conditions before he accepted Zuma's request to end the crisis unleashed by Nene's firing and this probably does not include Moyane. ■

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# in brief

## "SELL EVERYTHING EXCEPT HIGH-QUALITY BONDS. THIS IS ABOUT RETURN OF CAPITAL, NOT RETURN ON CAPITAL. IN A CROWDED HALL, EXIT DOORS ARE SMALL."

– Scottish bank RBS warns clients in a note to brace themselves for a "cataclysmic year" and a global deflationary crisis, *The Telegraph* reported. RBS is predicting that major stock markets could fall by a fifth and that oil may plummet to $16 a barrel.


Gallo Images/iStock

## "SOUTH AFRICA'S EXTREMELY HIGH LEVEL OF INEQUALITY CREATES GRAVE RISKS TO THE QUALITY OF OUR POLITICS, TO THE STRENGTH OF OUR INSTITUTIONS AND TO THE STABILITY OF OUR SOCIETY. THESE WORSEN SOUTH AFRICA'S BUSINESS ENVIRONMENT AND OUR COUNTRY RISK RATINGS WHICH, IN TURN, DAMAGE OUR PROSPECTS FOR FASTER AND MORE INCLUSIVE GROWTH IN SOUTH AFRICA AND THROUGHOUT THE CONTINENT."

– Sim Tshabalala, joint chief executive of Standard Bank, in a note to staff in which he responded to the racism controversy which was partly sparked by comments on Twitter by Chris Hart, the now suspended global investment strategist at Standard Bank Wealth and Investment.

## "There is no single person who can collapse a department, particularly a department like the Treasury."

– President Jacob Zuma comments in an interview with eNCA on 10 January on his decision to fire Nhlanhla Nene as finance minister and replace him with unknown Des van Rooyen in December. Zuma said the reaction was "exaggerated" and that people "didn't understand what was happening".

President Jacob Zuma

## THE GOOD

With markets experiencing the worst start to the year in decades (the first week's losses totalled more than $2.3tr globally, according to the *Financial Times*), and the rand hitting a record low against the dollar, there has been little to cheer. The listing of global megabrewer AB InBev on the JSE on 15 January, after *finweek* went to press, will add an attractive blue-chip option to local investors who are keen to build their offshore exposure. (Also see page 24.)

## THE BAD

Agriculture commentators were concerned when the department of trade and industry (dti) agreed to relax import restrictions on chicken meat for the US. Of specific concern was the relaxation of SA's application in testing for salmonella. While one would not want to question the US's ability to safely deliver chicken meat to SA's ports, a real concern should be SA's ability to implement its own safeguard measures on this side of the border. One need not look much further than the full page of vacancies at the department of agriculture, advertised in a Sunday paper recently, to back such a concern. Vacancies include that of chief directors for food security, and international relations and trade, as well as director of food safety and quality assurance.

## THE UGLY

The rand reached a record low of R17.995 against the dollar during Asian trade early in the morning of 11 January, triggered by fears about the outlook for the Chinese economy. While it has since strengthened somewhat, the outlook is anything but rosy – Japanese bank Nomura is forecasting it will trade at R19 against the greenback by the end of the year and warned that these "high water marks" will affect the monetary policy committee and possibly retailer price formation processes. John Cairns, currency strategist at RMB, told Moneyweb in an interview that rates will have to be hiked "very aggressively" before it would bring some stability to the rand.

## DOUBLE TAKE BY RICO


## US JOB GROWTH

# 229 000

Non-farm payrolls in the US increased by 292 000 in December, beating market expectations. The unemployment rate is at 5%. Since the global financial crisis, which led to 8.7m job cuts, the US has created more than 13.5m new jobs, according to Stanlib. However, despite the increase in the number of jobs, wage growth remains subdued. The lack of sustained wage growth, coupled with the absence of meaningful inflationary pressure elsewhere in the economy, implies that the US Federal Reserve is likely to keep interest rates on hold in early 2016, before hiking rates modestly during the remainder of 2016, Stanlib says.

**Wang Jianlin**
Chairman of Dalian Wanda Group

## SAA'S FINANCIAL TROUBLES

# R250m

Citibank cancelled a R250m loan facility to the struggling South African Airways (SAA) in December, leaving the airline without cash, Moneyweb reported. SAA is expected to have no free cash available by 15 January, it reported. Treasury said in a statement that it is working with SAA to ensure that it has sufficient liquidity. SAA has received more than R30bn in government guarantees and loans since 1999, and has had nine turnaround strategies in the last 15 years.

## EXECUTIVE PAY UNDER FIRE

# ±50%

Coronation's share price slid by about 50% over the past year, as poor market performance and a big (failed) bet on African Bank led to client outflows and lower performance fees. Coronation came under fire for poor disclosure of its remuneration policies, with shareholder activist Theo Botha saying there is no detail in the company's annual report to indicate the basis on which CEO Anton Pillay was awarded a R12m bonus, *Business Day* reported. Coronation said the policy was referred to in various parts of the annual report and bonuses were based on long-term achievements.

## HOLLYWOOD BECKONS FOR CHINESE BILLIONAIRE

# $3.5bn

Dalian Wanda Group, China's largest real estate developer and the world's largest movie theatre operator, has bought Hollywood film studio Legendary Entertainment for about $3.5bn, Reuters reported. Legendary is the studio behind films like *Jurassic World.* Chaired by China's richest man, Wang Jianlin, Dalian Wanda plans to package Legendary with existing movie production assets in China and sell shares in the combined company in an initial public offering, Reuters reported.

By Lameez Omarjee

# Capturing growth in SA's schools

The Data-Driven Districts (DDD) dashboard is aimed at guiding education officials in designing and implementing interventions to improve educational outcomes of all learners across the country.

The DDD dashboard is the result of research started in 2012 by the DDD project. The user-friendly dashboard makes data from over 2m South African learners available to education officials. By allowing officials to view learner and school performance effectively, this data platform will assist them in improving the support that is provided to both students and their teachers within the school system.

"Data is key for any organisation to make decisions," says Giles Gillett, founder and managing director at non-profit organisation New Leaders Foundation (NLF), which oversees DDD. Gillett explains how DDD research revealed that although data was available in the education system, no suitable format existed to visualise the data and take relevant action.

International funders partnered with the department of basic education (DBE), the private sector and NGOs to develop a solution. As a result, the DDD dashboard was created to present data in a standardised format, making it accessible to key stakeholders and aid further decision-making based on analysis and facts.

The dashboard was first piloted in 2013, and has since been expanded through projects in Gauteng, Limpopo, the Free State and Mpumalanga, according to Gillett.

The dashboard has helped facilitate data collection and capturing for 4 000 schools over the past three years. Dashboard metrics are extracted directly from the South Africa Schools Administration Management System (SA-SAMS), and reflect key performance outcomes such as attendance of learners, quarterly test marks, curriculum coverage and progression as well as matric pass rates. All measures are benchmarked against targets set by the DBE.

Data can be analysed in detail, comparing performance across provinces, districts, circuits, clusters, schools, phases (foundation, intermediate and FET) and grades. Users are able to conduct trend analyses and reports are also made available on the dashboard, says Gillett.

"We have created a tool for government to access information on their schools at the push of a button," he adds.

## How does it work?

Schools capture their data on SA-SAMS, which is distributed free of charge by the DBE. Once the information is uploaded to SA-SAMS, it is available for transfer to the province's data warehouses and to the web-enabled DDD dashboard. Data access is strictly controlled and users are only authorised to view data in their geographic area of responsibility.

"We are still overcoming data challenges," says Gillett. "Not all schools use SA-SAMS, and in some areas, internet connectivity is not available." The project team works with schools in the active provinces to build their capacity to capture and submit data to the required completeness and quality standards. The dashboard usage process requires onsite coaching and support as it also involves basic computer literacy training for users, data submission and dashboard navigation.

The dashboard has been implemented in four provinces but the plan is to extend it nationally over the next three years. Implementation depends on the readiness of schools and their SA-SAMS usage, says Gillett.

Training is facilitated by graduates working fulltime in districts, as part of a two-year professional development programme with NLF. "Apart from improving education, the project is also creating employment in the sector," says Gillett.

The practical application of information and decision making is carried out by district officials, school principals and their management teams. Learner outcomes occur in the classroom, says Gillett, and the sustainability of the project stems from the providing of vital information – visualised in the most useful format – to the people who are best placed to bring about the changes required.

Currently NLF's goal is to support government in getting more schools to use the dashboard and make the project sustainable to improve learner outcomes, says Gillett. ■

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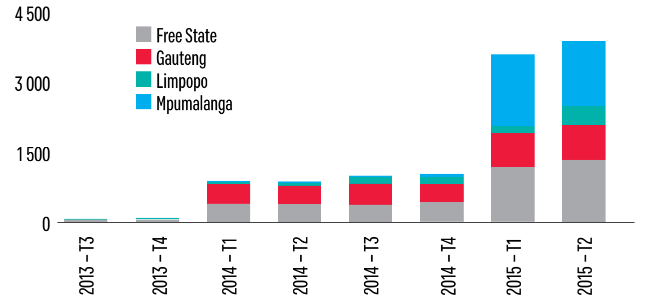
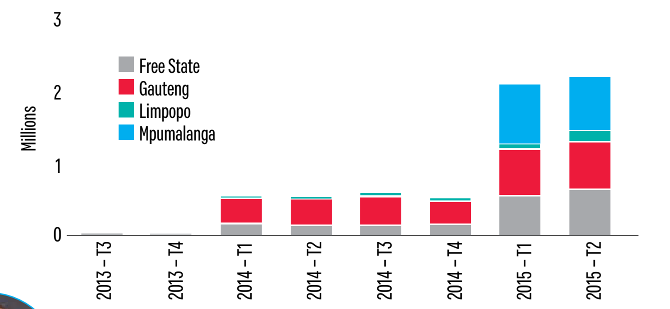
**GRAPH 1:** UPTAKE IN THE NUMBER OF SCHOOLS USING THE DDD DASHBOARD




**GRAPH 2:** THE NUMBER OF LEARNERS REPRESENTED ON THE DDD DASHBOARD




*T = Term

SOURCE: New Leaders Foundation

**Giles Gillett**
Founder and managing director at New Leaders Foundation (NLF)

"We have created a tool for government to access information on their schools at the push of a button."

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By David McKay

# The weak rand's effect on commodities

Gold stocks are rallying on the back of a weaker rand, but not everyone is optimistic that this can be sustained.

Whenever the value of the rand weakens against the dollar significantly, there is always a discussion that while there are short-term benefits for mining firms and other exporters, certain long-term national and economic demerits are implied.

Last year, emerging-market currencies, including Argentina's peso and the Brazilian real weakened more than the rand – 45% and 36% – versus the 27% weaker rand. This suggests that the decline in the value of the local currency was part of a broad sectoral view on emerging markets. However, the year-end 10% collapse in the rand also pointed to political risks that marked SA out from its emerging-market counterparts.

Said Bank of America Merrill Lynch in a recent note on political risk in SA: "In our view, the events of December highlighted most importantly that, for the time being, SA pulled back from the brink of a full-blown economic and political crisis.

"However, it may take time for question marks over the integrity of macroeconomic institutions and its insulation from political interference to dissipate, in our view, leaving South Africa vulnerable to shifts in global investor sentiment."

The reference was to the madcap swapping of finance ministers in December.

In its view, Merrill Lynch reckoned at least one credit rating institution will hand SA a sub-investment grade card during 2016. If this materialises, it will surely deal a blow to mining-related state-owned institutions such as Eskom and Transnet.

The bank also revisited its view on the rand, saying it would average around R17 during the year from a previous expectation of R13 to the dollar, and that when the currency fought back it would be to R15 against the dollar.

## Not all bad news

In the short term, mining companies have been lapping up the boon that comes with higher rand-denominated income whenever the currency takes a walk on the wild side.

**It may take time for question marks over the integrity of macroeconomic institutions and its insulation from political interference to dissipate.**

An average rand gold price of R550 000 per kilogram would be the equivalent of

**R4bn**

extra in revenue for the year.

According to James Wellsted, head of corporate affairs for Sibanye Gold, an average rand gold price of R550 000 per kilogram – which incidentally is a massive R80 000 more per kilogram than last year's average – would be the equivalent of R4bn extra in revenue for the year.

Those benefits are short term, however, argued Ross Harvey, a researcher at the SA Institute of International Affairs. He said that the cheaper rand doesn't sufficiently compensate for soaring production costs at home – a view Wellsted rejects: "We source 98% of our products from within SA so we are not that exposed to imports for machinery while we don't operate underground vehicles so there's little oil exposure."

Rand weakness is less protective when the commodity prices are heading south, however.

The currency weakness last year among Brazil, South Africa and Argentina barely compensated against an average 28% decline in the iron ore price in 2015. Copper and platinum prices were 27% and 31% weaker while the oil price was 30% lower, although as a consumer of oil, that would assist the mining sector.

## Gold off to a running start

Investors, however, weren't perturbed as gold stocks – and others – flew off the shelves in the first few days of 2016 – a development that may be motivated by a slight improvement in the fundamental condition of the gold market, likely US Fed rate increases notwithstanding, and a view that the rand may not much recover.

"The current market malaise may see the gold price firmer and the rand/dollar slide further, which could prove a double whammy for the rand gold price and for the SA gold miners in our view," said Allan Cooke, an analyst for JP Morgan Cazenove. It is the third year in a row SA gold stocks have shot out of the blocks at the beginning of the year. "In this scenario, the SA gold sector's new year rally has further to run, in our view," he added.

Citibank analyst Johann Steyn believed a gold stock run, propelled by the weaker rand, could be sustained: "This time, weakness has been driven by broad concerns about emerging-market growth, exacerbated by fears of an SA credit downgrade to sub-investment grade in 2016.

"This has seen the rand gold price increase 20% over a short period of time to R600 000 per kilogram – a level we believe can be sustained in 2016," said Steyn.

Or take the view of Bernard Swanepoel, the former CEO of Harmony Gold and Village Main Reef. He remarked in a tweet: "Own SA gold shares in December, but remember to sell." ■

editorial@finweek.co.za

By David McKay

# Banks wary of most mining shares

Recent notes by various banking groups will do the bleeding commodity sector no favour, with Barclays, for example, stating that the platinum group metal market (PGM) was now "uninvestible".

The likelihood of mining shares repopulating the JSE's top 20 index in 2016 is remote, with commodities being tipped to rattle along at the bottom for most of the year or possibly weaken further.

At the moment, only Glencore and BHP Billiton are in the index compared to several years ago when roughly a third of it was commodity-linked, if you included Sasol into the equation. Impala Platinum, Anglo American Platinum, Lonmin and Kumba Iron Ore have all slipped down the rankings drastically.

And for those among us still into fun facts in these joyless times, how about the $5.1bn the Oppenheimer family earned from the sale of its 40% stake in De Beers to Cynthia Carroll's Anglo American in 2011?

At the current rand/dollar exchange rate, that's enough to buy Anglo American in its entirety. At the time of writing, Anglo American was the JSE's 26th most valuable company with a market value of R82bn.

**Cynthia Carroll**
Former CEO of Anglo American

## We saw it coming

While disappointing, the outlook for the commodity market could hardly be described as a surprise.

"The past five years have been the worst period of mining sector performance since 1966; we see no reason for this to abate in 2016," says Barclays Capital in a note. "A demand shock seems ever more unlikely given the state of China's economy with currency weakness being the latest scare."

Barclays adds that there appeared to be an overreliance on iron ore for pretax profits in the sector as a whole owing the continued profitability of the massive iron ore mines owned by just two players: BHP Billiton (fifth on the JSE) and Rio Tinto.

> "The past five years have been the worst period of mining sector performance since 1966."

## Iron ore and others

According to the bank, iron ore will supply roughly two-thirds of total earnings before interest and tax (EBIT) as the profitability of mining other metals and minerals, such as copper and oil, does not contribute towards positive EBIT at all.

Trading of minerals and metals, one of the principle activities of Glencore (seventh on the JSE), will contribute about 14% of all EBIT for the sector in 2016. Zinc, aluminium and diamonds would comprise 2%, 4% and 6% respectively.

## PGMs

Barclays believes that gold will offer some stability on the basis of haven buying and despite moving into a period of interest rate increases in the US – not a view shared by all analysts, but the PGM market is "uninvestible", in its view.

Says Bank of America Merrill Lynch: "Producers have so far been reluctant to curtail production, despite relentless price declines. We are concerned that another leg lower in prices may be necessary to incentivise another round of cuts for a range of materials."

Its view on the PGM market was that sentiment around platinum had been hit particularly hard by the Volkswagen emissions scandal in respect of its diesel engines. "While the company continues to remedy the problem, we believe the immediate implications for metal demand remain limited," it says. "As such we expect platinum to continue bottoming out, although this may be a long and drawn-out process."

## Gold

As for gold, Bank of America Merrill Lynch says the outlook is affected by the likelihood of interest rate increases by the US Federal Reserve.

"Moving into 2016, we reinforce our expectation that rising nominal interest rates, combined with low and falling inflation rates will pressure the metal lower."

However, keeping gold above the $1 000/oz level – a critical psychological and economic barrier – should be possible in 2016, said Merrill Lynch "... partly because jewellery demand increases as the world gets richer and the hangover from the bull market seen before 2012 gradually subsides". Gold is currently trading at just above $1 100/oz. ■

editorial@finweek.co.za

By Larry Claasen

# The house is under pressure

With illegal operators on the rise, other legal gambling operations posing competition and a weakened economy, could SA casinos be facing a bad beat?

Casinos are starting to feel the heat of competition, but not from their traditional rivals like horse racing and the lotto. Since becoming legal in 1996, the 38 casinos across the country have dominated gambling in South Africa but the steady growth of illegal operators, as well as the growth of illegal online gambling, over the past few years are starting to threaten them.

In its latest outlook for the gambling industry, PwC warned that the weak economy will lead to slower growth in casino gambling revenues. Casinos also face growing competition from an increasing number of legal sports betting outlets, legal electronic bingo terminals and the increased number of illegal online casinos, it said. (Online gambling is illegal in SA. Online betting, however, is legal if it is done with a licensed South African bookmaker, according to the National Gambling Board.)

Though casinos for the large part still hold sway – gambling generated R23.9bn in gross revenue in 2014 of which 72.1% came from casinos – casino gambling revenues are forecast to grow by only 11.4% from R17.2bn in 2014 to R19.2bn in 2019, PwC forecasts. Gross revenue is calculated as the amount wagered less winnings paid to players. Overall, total gambling revenue (the major components are casino gambling, sports betting, limited-payout machines and bingo) will grow at an estimated compound annual growth rate of 4.8% between 2015 and 2019, PwC said. (Also see graph.)

However, it's not only illegal online operators that are hurting major gaming players like Sun International, Tsogo Sun and Peermont, but also unlicensed physical gambling businesses.

While casinos and their competitors like bingo, sports betting and slot machine operators have to play by the same rule book, unlicensed gambling operations do not play by anyone's rules as they can run slot machines that are not monitored by the national or provincial gambling authorities. The provincial gambling boards could for example take action on behalf of punters who feel they have been wronged by a licensed operator. If an unlicensed operation refuses to make a payout, punters have little recourse.

Unlicensed gambling is not only a threat to casinos but also to tax collections for national and provincial government, Themba Ngobese, CEO of the Casino Association of SA (CASA), said at a recent gambling conference in Cape Town.

With R2.47bn generated in license fees specifically coming from casinos for the year to end March 2015, Ngobese had a point as those illegal operations did not pay licence fees, corporate taxes or VAT. Online gambling is estimated to cost the government R110m in lost tax revenue annually, according to CASA. A proposal by the DA last year to legalise and regulate online gambling in order to capture the lost tax revenue was opposed by the department of trade and industry, which proposes that online gambling cannot be controlled and should remain illegal in order to "curb the harm that may be caused" to South Africans.

Online gambling is estimated to cost the government
**R110m**
in lost tax revenue annually.

Some in the gambling industry think the prevalence of illegal operations points to a broader issue – there are not enough licensed establishments. With regulators reluctant to give more licences, the status quo has left casinos in a very strong dominant position in the local gambling industry. Although, like the rest of the industry, they are calling for the legalisation of internet gambling and have concerns about how to attract a younger generation of punters, their prospects look solid.

Tsogo Sun is investing R3.5bn to expand its Suncoast casino, and finished the refurbishment of Gold Reef City in Johannesburg in December. Rival Sun International is spending R800m on upgrades at Sun City in the North West, and is investing R3bn to relocate its struggling Morula Sun casino outside Mabopane to Menlyn in Pretoria, where it will form part of a new R8bn entertainment complex at Menlyn Maine. ■

editorial@finweek.co.za

**GROSS GAMBLING REVENUES* BY TYPE (R MILLIONS), 2014 VS 2019**

TOTAL GAMBLING
**2019: 30 270**
**2014: 23 894**
**+26.7%**

CASINO GAMBLING
**2019: 19 200**
**2014: 17 235**
**+11.4%**

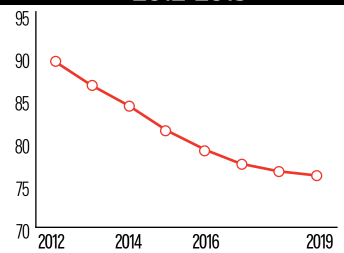
SPORTS BETTING
**2019: 5 010**
**2014: 3 463**
**+44.7%**

LPMS**
**2019: 3 390**
**2014: 2 079**
**+63%**

BINGO
**2019: 2 670**
**2014: 1 117**
**+139%**

*The amount wagered less winnings paid to players
**Limited-payout machines

**CASINO SHARE OF NON-SPORTS BETTING GAMBLING REVENUES (%), 2012-2019**




SOURCES: National Gambling Board of South Africa, PwC LLP, Wilkofsky Gruen Associates

# market place


**Don't miss:** The *finweek Money Matters* show every Friday at 1PM on CNBC Africa, channel 410. In the show, we talk to experts about the next issue's top stories.

**FUND IN FOCUS:** ABSA AFRICA EQUITY FUND

By Jaco Visser

# Backing quality in Africa

The Absa Africa Equity Fund is the top performer in its domestic category according to Morningstar Research, which tracks unit trusts worldwide. The fund aims to provide capital growth over the long term by targeting quality investments on the rest of the continent, including those local stocks with a large earnings exposure in the rest of Africa.

**FUND INFORMATION**

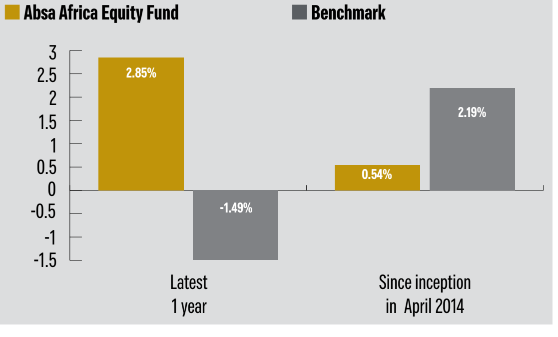
| | |
|---|---|
| Benchmark: | **MSCI Emerging Frontier Markets ex South Africa Index** |
| Minimum lump sum/ subsequent investment: | **R2 000 lump sum or R200/month** |
| Fund manager: | **Godfrey Mwanza** |
| Total Expense Ratio (TER): | **1.71%** |
| Fund size: | **R421.4m** |
| Contact details: | **unittrust@absa.co.za or 0860 111 456** |

**PORTFOLIO COMPOSITION**

| as at 30 November 2015: | % of fund |
|---|---|
| 1 Egypt | 29.38% |
| 2 Kenya | 24.7% |
| 3 Nigeria | 14.7% |
| 4 South Africa | 10.88% |
| 5 Uganda | 5.87% |
| 6 Senegal | 4.11% |
| 7 Tanzania | 3.02% |
| 8 Botswana | 2.79% |
| 9 Zimbabwe | 2.72% |
| 10 Zambia | 1.02% |
| **TOTAL** | **99.19%** |

**% RETURNS**

Annualised, and net of fees as at 30 November 2015:




## Fund manager insights

The fund is skewed towards quality stocks on the continent's largest stock exchanges, according to Godfrey Mwanza, manager of the fund.

"We look at our universe of stocks on the continent and we narrow down the stocks that we are going to do deep research on," he explains. This entails a bottom-up approach to research stocks, he explains. This approach looks at the company first and the industry second, as opposed to a bottom-down or macro approach. "This includes site visits, management meetings, building models and forecasts and so on," Mwanza says. "We want to focus on the highest-quality businesses in this space. We want to be fishing in the right ponds." The fund looks for value, but it looks for value among quality businesses, Mwanza says. "There is a lot of junk out there."

The fund's portfolio is more concentrated with a focus on quality, meaning it doesn't have a large number of underlying stocks, according to him. With quality he refers to high returns on assets, high cash flow generation, high returns on capital and those businesses that convert a lot of their earnings into cash. When they look at the balance sheet, for example, the fund likes to see high-liquidity assets and low leverage.

Many emerging and frontier markets, including African markets, had a rough time through 2014 and 2015 as offshore investors pulled their money back to the US and European markets in anticipation of higher interest rates. Risk in US income-yielding assets, such as bonds and the money market, is considered the lowest in the world.

In this environment many frontier- and emerging-market funds struggled to generate returns for investors.

"In a highly volatile period, the cream always rises," Mwanza says. "They are the big dominant players in the industry earning high returns on capital and operating margin."

## Why *finweek* would consider adding it

The fund has done well for one invested in Africa's frontier and emerging markets. African stocks, bonds and currencies have been hit hard by the outflow of investor capital over the past two years as the Chinese demand for raw minerals evaporated and the US hinted that it would start to increase interest rates. Finding jewels on the continent, such as Diageo Breweries of Kenya in which the fund is invested, is rare.

And for many selective fund managers it will most probably pay off. Public and private investment in Kenya's infrastructure will lift the country's economic growth potential. Stability in Egypt, with its overvalued currency, may possibly boost manufacturing in the country once the government devalues the pound. A new president in Tanzania may sweep clean the second-largest economy in East Africa.

This and similar funds are for the long-term investor who can afford to put some money aside and watch the continent's economies turning a corner. ■

**editorial@finweek.co.za**

ASTORIA

BUY SELL HOLD

By Simon Brown

# Waiting for fair value

Astoria* is from Anchor Capital and when it listed back in November 2015 I rated it a buy, but it's now overpriced.

Initially the only asset this holding company has is cash in the form of US dollars and each stock was worth $1 at listing. That makes it currently worth about R16, yet it trades closer to R18 – some 12% above the fair value.

Now sure, it plans to invest in top international US-listed companies as well as other funds that offer what the management team considers to be excellent investments and this is a great way to get easy offshore exposure. But a stock like this should really trade at a slight discount to fair value, not a premium. The issue is that with a weaker rand investors have been bidding the price up and its run ahead of fair value.

Initially the only asset this holding company has is cash in the form of US dollars and each stock was worth $1 at listing.

As a holder I continue to hold and look to buy more when it trades around fair value.

(Also see page 19.)

**The writer owns shares in Astoria.*

## Last trade ideas

- SELL Balwin Properties
- SELL South32
- BUY Conduit
- BUY Shoprite

CAPITEC BANK

BUY SELL HOLD

By Moxima Gama

# Shaken confidence

The banking index has been in the red since the second quarter of last year. What seemed to be a mere correction has avalanched into a massive sell-off, which is currently threatening the continuation of the long-term bull trend.

Confidence in the banking sector has taken a beating following President Jacob Zuma's decision to fire finance minister Nhlanhla Nene in December. Foreign investors sold off local equities and bonds, and local investors remain anxious about further international credit rating downgrades. Furthermore, the rand, which lost 35% against the dollar in 2015, has tested its lowest level on record at R17.99 against the dollar in overnight trade on 11 January. While it has since recovered somewhat, the weaker currency will continue to negatively impact the banking sector.

Compared to its peers, Capitec Bank has outperformed the banking index. Overall, its share price has increased by 250% from March 2014 to October 2015 – testing an all-time high at 61 500c/share.

After a short correction, Capitec has now failed to trade beyond 57 000c/share – effectively forming a lower top. This is a sign of decelerating upward momentum, which could trigger further capitulation within its long-term bull trend in the short term.

How to trade it: Support at 46 665c/share has been held since September. An upward reversal from an extremely oversold position is possible for the next couple of weeks. However, failure to recover beyond 52 665c/share would mean buyers are few, and downside through 46 665c/share could then ensue. Investors should short below that level as support at 41 035c/share could soon be tested. Retain a tight stop-loss.

Those considering going long should refrain. Capitec would only negate the head-and-shoulders pattern above 57 000c/share. Though I'm cautious on Capitec in the short term, my long-term view remains bullish. I believe this correction will offer investors an entry point at affordable levels, upon a recovery. ■

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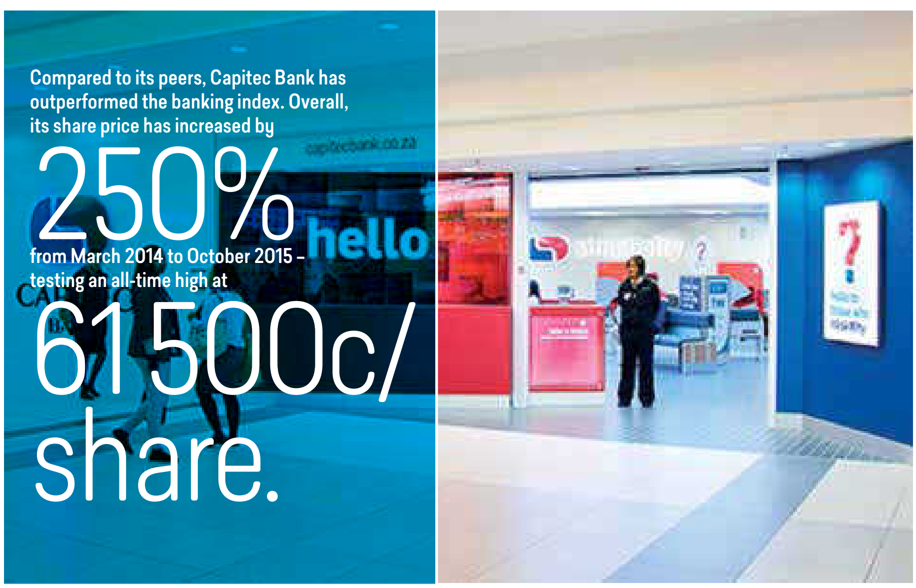
## Last trade ideas

- SELL Nampak
- SELL Mondi Ltd
- SELL Aspen Pharmacare
- BUY Datatec



By Moxima Gama

PIONEER FOODS

# Will the slide continue?

A restructuring at Pioneer Foods has boosted its financial results, yet its share price has declined by more than 20% since November. Should shareholders brace themselves for more pain?

Established in 1997 following the merger between SASKO and Bokomo and listed on the JSE in 2008, Pioneer Foods is one of the leading South African firms in the food and beverage sector. Its brands include Weet-Bix, Liqui-Fruit, Safari and Ceres.

The group's core business is the production, distribution, marketing and selling of a range of food, beverages and related products. Its international portfolio includes operations in the UK and Nigeria, as well as joint ventures in Namibia and Botswana, while its products are exported to more than 80 countries around the globe.

In South Africa, Pioneer operates a joint venture with US food giant Heinz, which also includes the John West and Wellington's brands.

Pioneer Foods has maintained a sturdy uptrend since listing on the JSE, appreciating from 1 900c/share to a peak of 21 600c/share in 2015. The bull trend steepened in 2013 when Phil Roux was appointed as CEO of the group and embarked on a restructuring process to cut costs and get rid of low-margin brands.

As part of this process, Pioneer unbundled its Quantum Foods business, which focuses on poultry, eggs and animal feed, in 2014. In July 2015, it terminated its bottling contract with Pepsi, which gave it the sole rights in SA to bottle, sell and distribute PepsiCo products.

It also sold its biscuit manufacturing assets and its interest in Maitland Vinegar Works last year.

The restructuring has been paying off. While revenue has been flat between the 2012 and 2015 financial years, margins and returns have improved substantially, notably a jump in return on equity from 12.5% in 2012 to 24% in the 2015 financial year.

Pioneer, which has PSG's Zeder as its major shareholder, is also investing in its more profitable businesses, notably its bakeries segment. It is investing R105m in upgrading its Epping bakery, where work is scheduled for completion this year, while a R330m investment is earmarked for its Aeroton bakery in Gauteng, according to the annual report.

In addition to its $7m purchase of a 50% stake in Nigeria's Food Concepts last year, smaller deals included a 50% stake in Futurelife Health Products.

Pioneer reported a 6% increase in revenue to R18.8bn in the year to end September, while operating profit jumped 28% to R2.15bn and headline earnings per share grew 30.5% to 832c. The total dividend for the year was up 50% to 332c/share.

Despite the strong results, its share price has declined by more than 20% since November last year in what may seem to be a correction from on overextended position, and this downside is likely to persist in the short term (one to six months).

| | |
|---|---|
| 52-week range: | R131.01 - R216 |
| Price/earnings ratio: | 21.56 |
| 1-year total return: | -3.28% |
| Market capitalisation: | R33.3bn |
| Earnings per share: | R6.65 |
| Dividend yield: | 2.31% |
| Average volume over 30 days: | 324 164 |

SOURCE: INET BFA

## What next?

**Possible scenario:** If Pioneer closes below 14 240c/share at the end of this month, the downtrend could persist to the 10 500c/share prior low or the second support trendline (black dashes trendline), before reversing back upwards to recover – the monthly RSI would then remain oversold. Investors should refrain from going long and rather short aggressively below 14 240c/share to avoid being caught in a major sell-off.

**Alternative scenario:** Firm support held at 14 240c/share could see Pioneer escape current bearishness. However, a positive breakout would only be confirmed above 17 500c/share. The all-time high at 21 600c/share could then be tested and a new bull trend could ensue. ■

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**PIONEER FOODS**


SOURCE: MetaStock Pro (Reuters)

Don't miss!

Moxima Gama on *Finweek: Money Matters* on CNBC Africa every Friday at 1pm.

**Moxima Gama** has been rated as one of the top 5 technical analysts in South Africa and outperformed the market during the recent recession. She has been a technical analyst for 10 years, working for BJM, Noah Financial Innovation and for Standard Bank as part of the Research Team in the Treasury Division of CIB.

By Simon Brown

# Simon's stock tips

Founder and director of investment website JustOneLap.com, Simon Brown is *finweek*'s resident expert on the stock markets. In this column, he provides insight into the week's main market news.

NASPERS


## Netflix fears unfounded

Netflix has finally arrived in South Africa and many suggest it's going to hurt Naspers*. But I'm not so sure. Naspers has two products competing with Netflix, firstly the monster that is DStv and its own streaming service Showmax. DStv has a major advantage over streaming services: its sport offering as well as having a number of very current series (HBO's *Game of Thrones* releases hours after screening in the US). The thing with streaming services is that they have older content and, more importantly, require an internet connection with lots of data. Streaming uses some 1GB per hour for standard-definition (SD) content and 3GB an hour for high-definition (HD) content. So while DStv will be losing a few subscribers, this loss is not going to be significant or hurt profits.

ANHEUSER-BUSCH INBEV

## Don't expect fireworks

AB Inbev lists on the JSE this Friday (15 January) and it will be the largest stock on our exchange with a market cap of some R3tr. However, it will not be included in any indices until we see 5% local shareholding, which may take a while to materialise, if it happens at all. Secondly, AB Inbev is not SABMiller in that the stock is not going to be roaring higher. SAB was backed by years of rumours of a takeover that finally happened. AB Inbev is a large boring defensive stock. Nothing wrong with that, but it means it's not a flyer.

STEEL INDUSTRY

## Pain eases somewhat

ArcelorMittal and the rest of the steel industry are finally seeing some glimmers of light as the government imposes import duties on some steel products. It is only a 10% import duty and only covers three products, but every little bit helps in this sector. However, I can't see a modest import tariff turning around the fortunes of our local steel producers. What they need is serious demand increases and that's not happening. The other side of the equation is supply reductions and that is happening, but still not to a large enough extent, and I am staying well away from this sector.

AB Inbev lists on the JSE this Friday and it will be the largest stock on our exchange with a market cap of some **R3tr.**

ANCHOR CAPITAL

## Potential for HEPS growth

Anchor Capital published details of assets under management (AUM) with the last quarter of 2015 seeing an increase of 59% to R34.1bn. For the year ending 2014 it had only R8.6bn, so a massive increase over the year. Now, sure, much of this was via acquisition, but that has been its strategy as it grows its AUM while costs remain largely flat, hence profits are increasing. I still think it can easily do 50c in HEPS for the full year ending December, having already done 20.8c HEPS in the first six months. However, when I first suggested 50c was possible the stock was around 1 200c and I considered it cheap. But now it's over 1 600c and that puts Anchor Capital on a forward price-to-earnings multiple (P/E) of some 32 times. That said, with HEPS growing at a faster rate, the price is very sustainable and I wouldn't be exiting if I was already a holder of the stock.

CORONATION FUND MANAGERS

## Price plunge – wait and see

One of the stock collapses of 2015 that has largely gone unnoticed has been Coronation. It lost over half of its value in 2015 and now trades at under R50 after being over R110 at the start of the year. The problem is simple in that its funds are not doing as well and so performance fees are weaker and hence profits will be down. Of note is that management has been warning that the levels of profits were not sustainable for a while now. The stock now sits on a single-digit P/E and looks cheap but I'd wait to see the next set of results. ■

It lost over half of its value in 2015 and now trades at under R50 after being over **R110** at the start of the year.

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*finweek *is a publication of Media24, a subsidiary of Naspers*

By Simon Brown

INVESTMENT

# Offshoring your portfolio

In December last year, Simon Brown wrote about how he would be moving away from SA Inc. This week he offers advice on the options available to investors wanting to take their portfolios offshore.

During those five days in December last year when we had three finance ministers, I wrote that I would be moving away from SA Inc. stocks and offshoring my portfolio. A number of people asked me for more details on how to offshore a portfolio and there are many options – but basically my aim is to earn US dollars or other non-rand currencies.

The first port of call would be a simple US dollar-based bank account (this is my preferred currency). Your bank should be able to open such an account for you and you can take R1m a year offshore with no issues, and another R4m with Sars approval. This is a simple passive bank account and, if based in US dollars, will likely receive zero interest until the US interest rates get somewhat higher. It is important to move money slowly over time; don't panic and move it all at once.

One can then use this money to fund an offshore stock brokerage account, either via an international broker or via a local broker offering. This opens up the opportunity to choose from literally tens of thousands of stocks to buy and over 1 000 Exchange Traded Funds (ETFs). I keep my offshore investing really simple, mostly buying the VOO – an ETF tracking the S&P 500 Index.

Other options produce the same result in that your money is in a foreign currency but held locally. Here we have the Absa exchange-traded Notes (ETNs) that track a foreign currency. For example, NEWUSD tracks the rand/US dollar exchange rate and moves pretty much in lockstep with the local currency against the dollar. They also offer euro and sterling ETNs.

The Deutsche Bank x-trackers also cover a range of international markets, such as the US (DBXUS*), UK (DBXUK), EU (DBXEU which is mostly France and Germany) and worldwide fund (DBXWD*). These are listed on the JSE, but your rands are converted into the currency of the fund and then the underlying stocks are bought. So you get pure offshore exposure, but simply via your JSE brokerage account.

While gold is under serious pressure, having hit an all-time high way back in August 2011 at over **$1 800,** it now languishes down at aroud **$1 100**

**The first port of call would be a simple US dollar-based bank account.**

There are a range of locally listed stocks that generate a significant part of their profits in a foreign currency. For example Richemont* earns pretty much all its profits in foreign currencies, as does British American Tobacco. This is another really simple and clean way of not only getting improved profits if the rand weakens against the currency they operate in, but also gives you exposure to international markets. Astoria* is another interesting one as it is purely US dollar-based.

Commodities are also an option. While gold is under serious pressure, having hit an all-time high way back in August 2011 at over $1 800, it now languishes down at around $1 100. Yet gold quoted in rands is trading at an all-time high thanks to the weak currency.

But I don't like this transaction; sure, you have the weaker rand helping your returns but you're fighting against the weaker commodity prices. For example, platinum in rands is not at an all-time high as the white metal's price has collapsed even further than gold, losing almost two thirds of its value since its high in 2008.

The same applies to commodity stocks. Sure, the rand price for their commodities may be doing better, or holding up, but costs are hurting and falling commodity prices may well offset any gains from the weaker rand. ■

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*The writer owns shares in Astoria, Richemont, DBXUS and DBXWD.*


The author prefers to keep his offshore investing simple by buying ETFs that track the S&P 500 Index.

Timur Emek/Getty Images

By Iwan Swiegers

NASPERS

# South Africa's darling

Naspers has been trading successfully since 1915 and remains one of the top stocks in SA. Its global exposure is also a great option in light of the rapid devaluation of our currency.

The first week of the year did not start off well for global markets and, with all the doom and gloom around us, you have to be very careful where to invest your money at the moment. Before I get to my stock pick for the week, I would like to take this opportunity to remind investors to be diversified at all times. Refrain from putting all your eggs into one basket and when you accumulate shares for your equity basket or portfolio, focus on getting your weightings right, in order to spread your risk as best as possible. This brings me to Naspers*, which is still one of the darlings of our market and my pick of the week. (Also see page 22 and the cover story on page 24.)

Naspers is a multinational internet and media group offering services in more than 130 countries and is one of the few companies in SA that has been successfully trading for over a century, since its founding in May 1915. Its primary operations are in e-commerce, video entertainment and print media. The group operates in high-growth markets which include Africa, China, Latin America, Central and Eastern Europe, Russia, India, Southeast Asia and the Middle East.

Naspers holds a 34% stake in Tencent, a Chinese internet company, which is listed on the Hong Kong Stock Exchange, and a 29% stake in Mail.ru, one of the largest internet companies in Russia (listed on the London Stock Exchange). The group has been growing well in the e-commerce space with three leading e-commerce platforms being OLX, Flipkart (the number one e-commerce platform in India) and Allegro (the number one e-commerce platform in Poland). Most people in SA are familiar with OLX, but OLX does not only operate in SA. It operates in 40 other countries as well and has over 260m monthly active users.

OLX does not only operate in SA. It operates in 40 other countries as well and has over

**260m**

monthly active users.

**Something that is quite appealing to me is the fact that its businesses outside SA contribute to about 75% of the company's revenue.**

In its latest set of results, for the six months to end September, we saw free cash flow (FCF) benefit thanks to a decline in capital expenditure (R1.3bn in the period, compared with R1.4bn in the corresponding period in 2014), and a R750m increase in investment income in the latest September half-year. The decline in capex is attributable to lower expenditure by the video-entertainment segment after completing the digital terrestrial television (DTT) network rollout. The balance sheet remained solid in a challenging global environment.

In December last year, the company completed a $1.2bn transaction to become the largest shareholder in Avito, the leading online classifieds platform in Russia. Naspers bought shares from existing shareholders to increase its stake from 17.4% to 67.9%. Avito is one of the top 10 websites by traffic in Russia with around 35m unique monthly visitors and 8.6bn monthly page views. In 2014, the company reported revenues of $76.5m.

In our current market conditions I am on the lookout for companies with offshore exposure and something that is quite appealing to me is the fact that its businesses outside SA contribute to about 75% of the company's revenue, which I see as a safe bet with our currency that is devaluing at a rapid pace. ■

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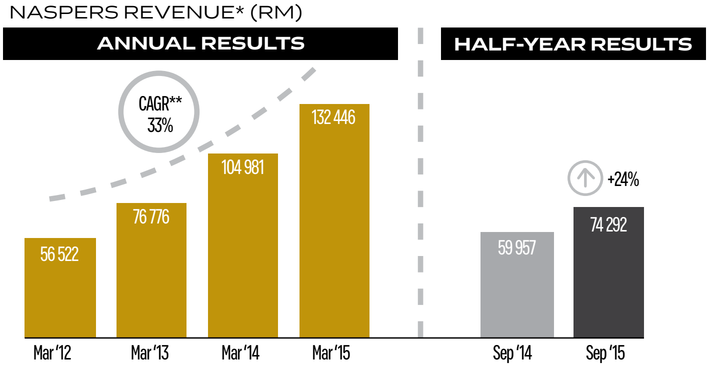
*finweek *is a publication of Media24, a subsidiary of Naspers.*

**Iwan Swiegers** is director at Capilis Asset Management.

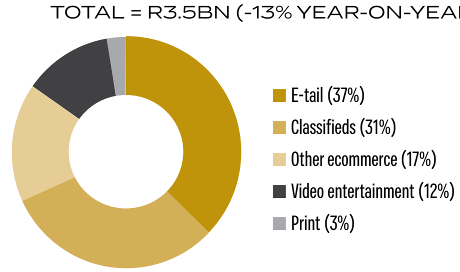
NASPERS REVENUE* (RM)




*Based on economic interest, i.e. equity accounted investments are proportionately consolidated
**Compound annual growth rate

NASPERS DEVELOPMENT SPEND* BY SEGMENT

TOTAL = R3.5BN (-13% YEAR-ON-YEAR)




*Based on economic interest, i.e. equity accounted investments are proportionately consolidated

All numbers for the six months to end September 2015.

By Lucas de Lange

JSE

# Winners keep on winning

The view held by momentum investors – that winning shares tend to keep on winning – is confirmed by the number of shares that were the strongest among the 100 companies with the biggest market capitalisations on the JSE on 2 January 2015. Of the top 10, only three – Aspen (-28%), Netcare (-9.4%) and Telkom (-7.6%) closed 2015 with losses.

Fortress B was the strongest on the list. On 2 January 2015 it stood at 42% above its 200-day exponential moving average (EMA) and closed the year with a profit of 92%. Stalwart Capitec was second on the list and yielded 70%. Telkom was third, but virtually ended where it had begun – with a small loss as mentioned above.

PSG, which was fourth on the list, also performed well with a profit of 74%, followed by Pioneer Foods, whose price rocketed by 90%. Naspers* – 10th on the list – increased by 37%. The remaining two – Oceana and Spar – improved by 10% and 13.5% respectively.

Relative strength (RS), that is, a share's price performance record relative to a benchmark such as an index, or in this case, relative to its own 200-day EMA, is widely accepted as a useful indicator for investors. This confirms where the buying pressure of so-called smart money lies.

The figures mentioned above were achieved had one blindly invested on the basis of RS.

Successful momentum investors also make use of other indicators. The American, Richard Driehaus**, a momentum devotee of international repute, mentions two additional factors in particular in addition to a bullish graph.

The first is that there should be expectations of increasing profits and the second is that one should quickly get rid of shares that aren't performing up to scratch, in other words, limit losses. He is not really concerned about indicators such as price-to-earnings multiples or dividend yields, although he admits that it is psychologically difficult to buy a share that is expensive based on the above.

Some of his best purchases were growth shares that could even be regarded as very expensive. He often invests in small companies when the market shows little interest in them. "I buy at high prices to sell at higher prices," he states.

At the other end of the spectrum, we have value investing where investors look at inexpensive shares with upward potential. The JSE will enter the new year with Sappi-one of the strongest shares after having been a dog for so long. The weakest counters are still resources.

Of the shares that have broken out, Mediclinic, Resilient, Naspers, Mondi plc look interesting, while Capitec is in a buying area.

One thing that the long list of weak shares leaves no doubt about is that the JSE is under considerable pressure with its 200-day EMA having reversed downward. Gold shares have, however, pleased speculators. ■

**editorial@finweek.co.za**

**finweek* is a publication of Media24, a subsidiary of Naspers.*

***The success Driehaus has achieved with momentum investing is apparent from audited figures that show that $104 000 he managed on behalf of a female colleague grew to $5.8m. This after the investment had earlier weakened to less than $60 000 owing to a tight bear market. He says that luckily she had not panicked, but perservered.*

**STRONGEST SHARES**

| COMPANY | % ABOVE 200-DAY EXPONENTIAL MA |
|---|---|
| HARMONY | 48.9 |
| DRDGOLD | 36.6 |
| SAPPI | 26.6 |
| SABMILLER | 25.9 |
| SIBANYE | 24.9 |
| AQUARIUS | 24.3 |
| NEPI | 23.6 |
| GOLD FIELDS | 20.3 |
| BAT | 14.2 |
| ANGLOGOLD ASHANTI | 13 |
| BLUE LABEL TELECOMS | 12.8 |
| PAN AFRICAN | 9.3 |
| SUPER GROUP | 7.6 |
| FORTRESS B | 7.1 |
| OCEANA | 6.5 |
| STEINHOFF | 6.3 |
| AQUARIUS | 11.9 |
| HOLDSPORT | 11.6 |
| INVESTEC PLC | 10.6 |
| PICK N PAY | 10.1 |
| OLD MUTUAL | 10 |

**WEAKEST SHARES**

| COMPANY | % BELOW 200-DAY EXPONENTIAL MA |
|---|---|
| KUMBA IRON ORE | -71 |
| ANGLO AMERICAN | -60.2 |
| ARCELORMITTAL | -54.2 |
| IMPLATS | -45.3 |
| ARM | -44.5 |
| GLENCORE | -43.8 |
| ASSORE | -39.2 |
| EXXARO | -38.6 |
| AMPLATS | -36.7 |
| M&R HOLDINGS | -36.5 |
| IMPERIAL | -35.9 |
| CORONATION | -32.6 |
| MTN GROUP | -30.6 |
| BHP BILLITON | -29.9 |
| BARLOWORLD | -29.7 |
| RBPLAT | -28.4 |
| GRINDROD | -26.9 |
| NAMPAK | -26.4 |
| TONGAAT | -26.1 |
| STANDARD BANK | -25.6 |
| MASSMART | -23.5 |
| NEDBANK | -23.2 |
| MMI HOLDINGS | -23.2 |
| BARCLAYS AFRICA | -21.7 |
| PPC | -21.6 |
| TFG | -20.9 |
| FIRSTRAND | -20.8 |
| RMB HOLDINGS | -19.3 |
| ATTACQ | -19.3 |
| LIBERTY HOLDINGS | -18.3 |
| HYPROP | -17.7 |
| PIONEER FOODS | -17 |
| RCL | -16.9 |
| LEWIS | -16.7 |
| RAUBEX | -16.5 |
| SUN INTERNATIONAL | -16.4 |
| REBOSIS | -16.2 |
| SANLAM | -15.5 |
| ASPEN | -14.3 |
| REDEFINE | -14.3 |
| DATATEC | -13.6 |
| SHOPRITE | -13.4 |
| EMIRA | -12.2 |
| RMI HOLDINGS | -12 |
| LIFE HEALTHCARE | -11.7 |
| NETCARE | -11.6 |
| GROWTHPOINT | -11.5 |
| SANTAM | -11.4 |
| VUKILE | -11.1 |
| TELKOM | -9.5 |
| SASOL | -9 |
| DISCOVERY | -8.8 |
| REMGRO | -8.7 |
| OLD MUTUAL | -8.4 |
| MPACT | -7.7 |
| ADCOCK | -7.7 |
| AVI | -7.7 |
| ILLOVO | -7.6 |
| TSOGO SUN | -7.5 |
| NORTHAM | -6.8 |
| PSG | -6.6 |
| CLICKS | -6.1 |

**BREAKING THROUGH**

| COMPANY | % ABOVE 200-DAY EXPONENTIAL MA |
|---|---|
| KAP | 5.8 |
| VODACOM | 4.9 |
| MEDICLINIC | 3.9 |
| RESILIENT | 3.9 |
| NASPERS-N | 3.9 |
| MONDI PLC | 2.7 |
| CITY LODGE | 2.5 |
| REUNERT | 2.3 |
| CAPITEC | 2.2 |
| RICHEMONT | 0.7 |

That stalwart, Capitec, was second on the list and yielded

70%.

By Schalk Louw

PORTFOLIO MANAGEMENT

# What to do during a market correction

Things might seem bleak, but market corrections are nothing to be afraid of.

Within the first 10 days of 2016 it was already safe to say that the year started with a bang. After parting with the US dollar at a whopping R15.46 in 2015, who would have thought that only 11 days later, the rand would be trading above R16.80/$? And with the FTSE/All Share Index already trading 6% lower at the time of writing this article, we last saw a New Year take off this badly in 1995. At this point, however, I would like to thank SABMiller for its ongoing contribution to the index, as we certainly would have traded much closer to January 1995's 13.85% drop without this company waiting for its payment in pounds.

Although this massive drop in world markets isn't exactly unexpected, the biggest question that investors are struggling with is, "What do we do now?"

When you get onto an aeroplane, you are always presented with a step-by-step demonstration and manual prior to take-off on what to do in case of a flight emergency. Unfortunately, there is no such step-by-step manual available to assist investors in case of a stock market 'emergency'.

The solution, in short, is that if you still have 10 plus years before you retire, the best thing to do would be *nothing*. The local market was negative 17% of the time over any two-year rolling period over the past 50 years, and although most experts insist that you should at least have a five-year investment horizon when it comes to shares, the local stock market was negative nearly 4% of the time over any five-year period in the same 50-year span. Had you extended your investment horizon to 10 years, however, you wouldn't have experienced any negative periods over the past 50 years in the local stock market (including dividends).

If you have to retire within the next 10 years, things become more complicated and you will have to take more variables (such as cash flow, etc.) into account.

> If you still have 10 plus years before you retire, the best thing to do would be *nothing*.

By taking a sober look at a market correction, you will realise that it isn't necessarily such a bad thing. On the contrary, when it comes to the stock market for the past few years, I've been feeling like a shopper walking into a shop where every item is marked 20% higher than the normal asking price. My advice to investors is as follows:

## 1. KEEP YOUR EMOTIONS OUT OF YOUR INVESTMENTS

I know this easier said than done, but when stock markets experience massive declines, fear is an emotion that often prompts us to sell investments just as they actually start to show value for money. If you don't have any urgent financial obligations such as retirement, try not to let your emotions get the better of you. Shares still remain the asset class that shows the best growth over the long term.

## 2. CORRECTIONS PRESENT OPPORTUNITIES

Over the past 50 years, the local stock market has declined by 10% in any rolling three-month period 11.5% of the time (69 times). This tells us that a correction isn't an abnormality, and also that it will happen many more times in the future. What I find interesting about these declines, is that every time that the market dropped by 10% or more over a rolling three-month period, the average rise in the index only 12 months later, amounted to 15% over the past 50 years. Although there were also many negative 12-month earnings following these declines, it shows us that, firstly, corrections present us with some investment opportunities and secondly, that corrections in many cases can be short lived.

The fact that 2016 may not be a particularly easy one for investors certainly isn't what I planned on structuring my first piece of writing around this year. Regardless of this, however, I don't believe that it will be impossible to identify and seize good investment opportunities this year. ■

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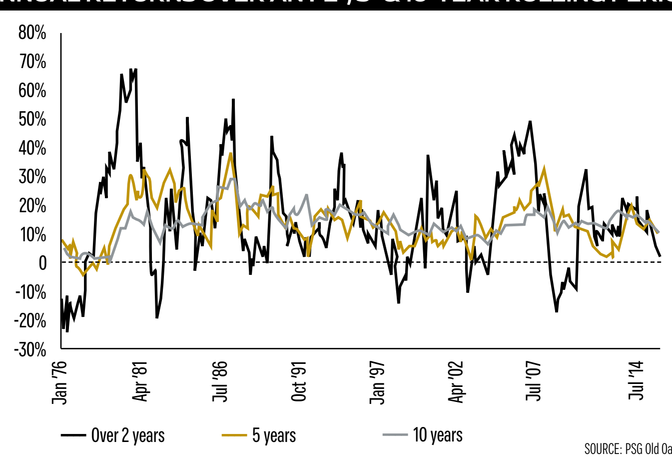
**Schalk Louw** is a portfolio manager at PSG Wealth.

ANNUAL RETURNS OVER ANY 2-, 5- & 10-YEAR ROLLING PERIOD




SOURCE: PSG Old Oak & INET BFA

## DIRECTORS DEALINGS

| COMPANY | DIRECTOR | TRANS. DATE | TRANSACTION TYPE | VOLUME | PRICE (C) | VALUE (R) | DATE MODIFIED |
|---|---|---|---|---|---|---|---|
| ANGLO | J Dlamini | 6 January | Purchase | 2,653 | £2.60 | £6,897 | 7 January |
| ANGLO | P Hampton | 6 January | Purchase | 3,530 | £2.60 | £9,178 | 7 January |
| ANGLO | M Ramatlapeng | 6 January | Purchase | 1,078 | £2.60 | £2,802 | 7 January |
| ANGLO | J Rutherford | 6 January | Purchase | 5,046 | £2.60 | £13,119 | 7 January |
| AQUARIUS | SEN De Bruyn Sebotsa | 9 October | Purchase | 33,703 | $17 | $5,729 | 6 January |
| AQUARIUS | GE Haslam | 9 October | Purchase | 33,703 | $17 | $5,729 | 6 January |
| AQUARIUS | Sir N Rudd | 6 January | Purchase | 296,585 | $17 | $50,419 | 6 January |
| ARGENT | TR Hendry | 8 January | Purchase | 4,900 | 385 | 18,865 | 11 January |
| ARGENT | AF Litschka | 11 January | Purchase | 1,400 | 385 | 5,390 | 12 January |
| BSI STEEL | C Parry | 5 January | Sell | 150,000 | 40 | 60,000 | 6 January |
| BUILDMAX | TP Bantock | 6 January | Purchase | 267,246 | 18 | 48,104 | 8 January |
| BUILDMAX | TP Bantock | 11 January | Purchase | 315,823 | 19 | 60,006 | 13 January |
| CAPITEC | AP Du Plessis | 5 January | Purchase | 1,000 | 52000 | 520,000 | 6 January |
| EOH | JW King | 11 January | Purchase | 2,615 | 12123 | 317,016 | 12 January |
| GOODERSON | Swanepoel | 4 January | Sell | 19,155 | 50 | 9,577 | 6 January |
| INVESTEC LTD | B Kantor | 7 January | Sell | 200,000 | 10110 | 20,220,000 | 11 January |
| INVESTEC PLC | B Kantor | 7 January | Sell | 200,000 | 10110 | 20,220,000 | 11 January |
| PEREGRINE | M Yachad | 7 January | Purchase | 100,000 | 2705 | 2,705,000 | 8 January |
| PIONEER FOODS | PM Roux | 12 January | Sell | 100,000 | 14024 | 14,024,000 | 13 January |
| RAUBEX | TG Wiese | 4 January | Purchase | 11,500 | 1640 | 188,600 | 5 January |
| RBPLAT | MJL Prinsloo | 30 December | Sell | 2,191 | 2700 | 59,157 | 13 January |
| SAFARI | JP Snyman | 12 January | Sell | 11,135 | 820 | 91,307 | 13 January |
| SAFARI | JP Snyman | 11 January | Purchase | 6,580 | 830 | 54,614 | 12 January |
| TONGAAT | PH Staude | 7 January | Purchase | 500 | 8479 | 42,395 | 8 January |
| TREMATON | A Winkler | 4 January | Sell | 20,000 | 383 | 76,600 | 7 January |
| SEPHAKU | P Fourie | 18 December | Exercise Options | 164,473 | 268 | 440,788 | 23 December |
| SEPHAKU | P Fourie | 18 December | Sell | 150,000 | 525 | 787,500 | 23 December |
| SEPHAKU | P Fourie | 18 December | Sell | 10,000 | 525 | 52,500 | 23 December |
| SHOPRITE | JG van Deventer | 30 December | Sell | 10,000 | 14550 | 1,455,000 | 31 December |

## BEST AND WORST PERFORMING SHARES

| SHARE | WEEK PRICE (c) | CHANGE (%) |
|---|---|---|
| **BEST** | | |
| Mineresi | 5 | 66.67 |
| Chrometco | 11 | 57.14 |
| ArcelorMittal | 640 | 56.1 |
| Nutrition 3 | 50.00 | 28.21 |
| Ferrum | 5 | 25 |
| | | |
| **WORST** | | |
| Kaydav | 112 | -25.33 |
| Tawana | 3 | -25 |
| Lonmin | 1312 | -22.82 |
| Zakhele | 6050 | -17.12 |
| Pallinghurst | 317 | -16.36 |

## INDICES

| INDEX | WEEK VALUE | CHANGE* (%) |
|---|---|---|
| JSE ALL SHARE | 48 396.18 | -1.4 |
| JSE FINANCIAL 15 | 14 064.78 | -2.79 |
| JSE INDUSTRIAL 25 | 69 341.79 | -0.58 |
| JSE SA LISTED PROPERTY | 595.30 | -1.37 |
| JSE SA RESOURCES | 13 004.26 | -2.52 |
| JSE TOP 40 | 43 489.36 | -1.5 |
| CAC 40 | 437 875 | -2.27 |
| DAXX | 982 507 | -4.7 |
| FTSE 100 | 592 924 | -2.37 |
| HANG SENG | 1 971 176 | -6.05 |
| NASDAQ COMPOSITE | 468 591 | -3.1 |
| NIKKEI 225 | 1 721 896 | -5.35 |
| S&P 500 | 193 868 | -2.59 |

*Percentage reflects the week-on-week change.

## P/E RANKING

| SHARE | FORECAST |
|---|---|
| KUMBA IRON ORE | 2.44 |
| BASIL READ | 3.47 |
| MERAFE | 4.38 |
| AVENG | 4.47 |
| M&R HOLDINGS | 4.59 |
| OCTODEC | 4.95 |
| LEWIS | 5.60 |
| BARLOWORLD | 5.78 |
| ANGLO AMERICAN | 5.93 |
| PAN AFRICAN | 5.94 |

## EPS RANKING

| SHARE | F'CAST (C) | F'CAST AS %* |
|---|---|---|
| NASPERS-N- | 4290 | 2.27 |
| BAT | 4211 | 4.8 |
| SASOL | 3662 | 9.2 |
| SABMILLER | 3127 | 3.3 |
| CAPITEC | 2728 | 5.7 |
| NEDBANK | 2273 | 13.1 |
| TIGER BRANDS | 2124 | 7.4 |
| BIDVEST | 2100 | 6.4 |
| MONDI LTD | 2041 | 6.7 |
| REMGRO | 1758 | 7.2 |

*Forecast EPS as a percentage of current share price

## DIVIDEND RANKING

| SHARE | F'CAST DPS (C) | F'CAST DY (%) |
|---|---|---|
| REBOSIS | 120 | 13.0 |
| BHP BILLITON | 1751 | 11.7 |
| DRDGOLD | 39 | 11.4 |
| MTN GROUP | 1307 | 10.7 |
| LEWIS | 517 | 10.0 |
| CORONATION | 489 | 9.8 |
| VUKILE | 148 | 9.7 |
| ASTRAL | 1000 | 9.6 |
| EMIRA | 146 | 9.6 |
| PAN AFRICAN | 19 | 9.4 |

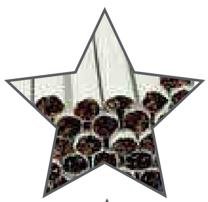
Pan African Resource, Phoenix Platinum mine in the North West

Cobus Loots
**CEO of Pan African**

All data as at 13 January at 17:00. Supplied by INET BFA.

By Marcia Klein

# THE JSE'S 5 BIGGEST STARS


The JSE's top five companies are active in a range of diverse sectors – from tobacco to media and luxury goods. But what these behemoths have in common is that they offer the South African investor much-needed offshore exposure. And even more so from 15 January, when Anheuser-Busch InBev is set to list on the JSE.

Anheuser-Busch InBev's (AB InBev's) merger with SABMiller will shake up the rankings of the JSE's largest companies. AB InBev, which intends to list on 15 January ahead of the finalisation of the merger, will become South Africa's biggest share, boosting the JSE's value and providing South African investors with an opportunity to trade in one of the world's biggest consumer companies.

But local investors are spoilt for choice as all of the top five companies in terms of market capitalisation – AB InBev, British American Tobacco (BAT), BHP Billiton, Naspers, and Compagnie Financière Richemont SA (Richemont), offer global exposure and all are ranked as buys by analysts.

# 1

## ANHEUSER-BUSCH INBEV

**Market cap:** €177.23bn (Brussels) equivalent to R3.17tr

**P/E:** 20.27

**Dividend yield:** 3.27%

By far the most significant event of the JSE's 2016 calendar is this month's proposed listing of AB InBev, which will become the exchange's largest share with a market cap of just over R3tr, adding more than a quarter of the JSE's current R11.8tr total market cap.

The inward listing of the beverages giant, which follows its announcement that it will buy home-grown competitor SABMiller in a massive $106bn deal, will see it top the market value of the JSE's current market cap leader BAT by some margin.

Not only does the listing significantly add to the JSE's total value, but it also triggers changes in the investment activities of index trackers. At the same time, it makes the JSE even more reflective of global markets and less reliant on local economic factors. Already, most of the top five largest JSE-listed companies are essentially global in their operations and their investor base.

AB InBev's listing allows South African investors to invest directly in one of the world's top five consumer companies with 100% foreign exposure without using foreign exchange allowances. AB InBev operates in over 25 countries and sells in over 100 with 2014 revenue of over $47bn.

Both AB InBev and SABMiller will trade on the JSE until the deal is finalised, after which SABMiller will disappear from the JSE. It is one of the JSE's oldest stalwarts after listing as South African Breweries in 1897 as the exchange's first industrial share. Once the deal is complete, a new company will be listed on Euronext Brussels and on the JSE.

AB InBev operates in over **25** countries and sells in over 100 with 2014 revenue of over **$47bn.**

AB InBev and SABMiller would currently have a combined market cap of R4.6tr, representing nearly a third of the JSE's enlarged total market cap following AB InBev's listing.

According to FT.com, the analysts's consensus is "outperform" and marketwatch.com reports the average consensus as "overweight".

In its most recent results, AB InBev reported a 7.9% increase in revenue and 9.6% increase in earnings before interest, tax, depreciation and amortisation (EBITDA) for the quarter to September 2015 on a 1.5% volume increase. For the nine months to September, revenue was up 6.1% and EBITDA was up 8.3%, but volumes were down 0.6%. Sales were, however, expected to increase over the next few months.

The AB InBev-SABMiller merger, which shareholders have approved, still faces a number of regulatory and other hurdles. Last month some beer drinkers in Oregon in the US filed a class action lawsuit to block the merger, saying it will create a monopoly in the US beer market. AB InBev will get rid of some SABMiller brands, including Grolsch and Peroni, ahead of the merger to allay concerns of anti-competitiveness in Europe.

Should all go smoothly, South African investors will be able to buy into a globally recognised company that will produce one of every three beers in the world. Annual combined revenue will be in the region of $64bn. But AB InBev will also be saddled with additional debt and will have to integrate its new acquisition. Those who remember SAB's challenges integrating Miller in the US may be wary.

Gallo/Getty Images

## SABMILLER

**Market cap:** R1.56tr

**P/E:** 31.7

**Dividend yield:** 1.73%

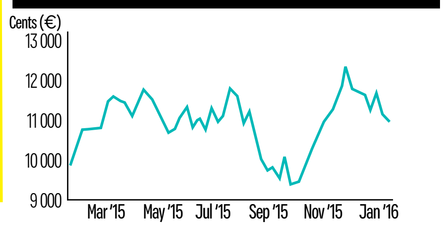
**Analyst consensus:** Hold

SABMiller is the second-largest JSE share by value, trading only until the merger with AB InBev is finalised.

AB InBev has offered SABMiller shareholders £44 a share and a partial share alternative. SABMiller will remain listed for now, but once the deal is finalised, both AB InBev and SABMiller will be replaced on the JSE by the new merged group.

SABMiller has been by far the best-performing share of the JSE's largest five companies over a year, with the share price increasing over 62%.

**ANHEUSER-BUSCH INBEV**




| | |
|---|---|
| 52-week range: | €87.73 - €124.20 |
| Price/earnings ratio: | 20.27 |
| 1-year total return: | 16.28% |
| Market capitalisation: | €177.23bn |
| Earnings per share: | $5.88 |
| Dividend yield: | 3.27% |
| Average volume over 30 days: | 929 348 |

SOURCE: INET BFA

2

# BRITISH AMERICAN TOBACCO

**Market cap:** R1.6tr

**P/E:** 17.18

**Dividend yield:** 3.6%

The global tobacco company is set to lose its position as the largest share on the JSE when AB InBev lists.

Considered by many investors as a defensive stock with significant geographical spread and an excellent rand hedge, BAT's financial performance has been unremarkable as sales volumes continue their slow decline. In 2014 it sold 667bn cigarettes, manufactured in 44 factories in 41 countries. This was 1.4% less than in 2013.

In the nine months to September 2015 its revenue grew by 4.2% at constant exchange rates but dropped 6.5% at current exchange rates.

2014 revenue and earnings were down 8.4% and 3.9% respectively, with the latter reflecting currency fluctuations rather than a weak operational performance. On a constant currency basis, earnings were up 7.9% as the group increased its market share, while dividends were 4% higher. BAT appeals to South African investors for its steady performance and dividend flow. It also outperformed the JSE and London Stock Exchange last year.

Its geographic diversity may appeal to investors. Asia Pacific accounted for 27% of revenue; the Americas, 22%; Western Europe, 23%; and Eastern Europe, Middle East and Africa, 28%. Just 15.45% of its share capital is in South Africa and the local operation, BAT SA, contributes less than 10% to group profits, according to reports. But while BAT is the world's second biggest cigarette company, its market share in South Africa is closer to 90%. Analysts remain bullish and the consensus is that BAT is a "buy", according to INET BFA.

In 2014 it sold **667bn** cigarettes, manufactured in 44 factories in 41 countries.

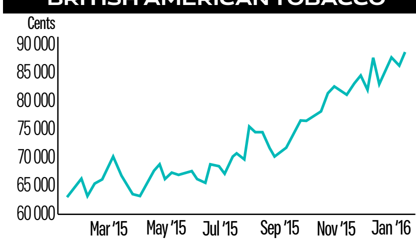
BAT has been proactive in finding solutions to the problem of low-volume growth and continued pressure from the anti-smoking lobby in developed markets. Its e-Voke cigarette recently became the first e-cigarette to be accepted by UK drug regulators to be sold as a medicine for quitting smoking, paving the way for it to be prescribed to National Health Service patients, according to UK reports.

BAT, which has had to contend with various allegations against it in South Africa, also faces allegations of bribery and corruption in Uganda and Kenya after two former employees have come out as whistle-blowers. In Zimbabwe, President Robert Mugabe himself has accused it of using criminal means against its local competitor, Savannah Tobacco.

BAT management remains bullish in the short term. Following its most recent financial update, CEO Nicandro Durante said BAT's strong market share growth was driven "by the exceptional performance of our Global Drive Brands while the increase in revenue, at constant rates of exchange, was due to strong pricing in the majority of our markets".

While he warned that "performance will moderate in the final quarter partly due to a strong comparator and the impact of the deterioration in exchange rates," he said BAT was increasing its marketing investment and geographic expansion of next generation products, and was "on track to deliver another year of good earnings growth at constant rates of exchange".

BRITISH AMERICAN TOBACCO




| | |
|---|---|
| 52-week range: | R602.89 - R900 |
| Price/earnings ratio: | 17.18 |
| 1-year total return: | 46.96% |
| Market capitalisation: | R1.6trn |
| Earnings per share: | £2.16 |
| Dividend yield: | 3.6% |
| Average volume over 30 days: | 1 210 727 |

SOURCE: INET BFA

# 3

## BHP BILLITON

**Market cap:** R858.69bn

**P/E:** 14.09

**Dividend yield:** 12.02%

Of the five largest shares on the JSE, global commodities group BHP Billiton, whose share was the worst performer among them, will likely find it hardest to attract investors in 2016.

The group, which lost 28% of its value over the past year, starts 2016 under the combined pressures of the commodities rout, a tailings dam disaster in Brazil, threats to its credit rating and indications that it may no longer appease shareholders with a policy of maintaining or increasing dividends.

**BHP Billiton is an investment only for those who are prepared to ride out commodity cycles and take on some risk.**

The *Financial Times* reported in December last year that BHP Billiton is "stepping up its hunt for acquisitions or new projects" in copper and deepwater oil. It said it is moving closer to ending its policy of maintaining or increasing its dividend. "A cut in BHP's annual payout, which cost the miner $6.6bn in its last financial year, could be announced in February," the FT said.

Nevertheless, the analysts' consensus, according to INET BFA, remains a buy although website seekingalpha.com said in December 2015 that "a 30%-50% downside from the current share price is foreseeable", and CEO Andrew Mackenzie remains "bearish about the long-term projections for [commodity] prices". Low iron ore and coal prices are likely to continue to put pressure on the group's earnings.

Marketrealist.com said in December that BHP is under more pressure than its peers due to its "significant exposure to petroleum and the steep fall in oil and gas prices recently", in addition to investor concern over the sustainability of dividends. Another factor is the November 2015 disaster in Brazil at its joint venture with Vale, Samarco, where a dam failed, causing the loss of lives, the destruction of villages and severe pollution. BHP and Vale are being sued for damages. If BHP has to pay half of the $5.2bn penalty, it is likely to be downgraded by Moody's and its increased debt will make it difficult to sustain dividends. Anglo American, Glencore and other mining companies have suspended dividends, although reports indicate BHP will reduce, but not suspend its dividends.

South African investors who have shares in South32, spun off from BHP Billiton in 2015 following its demerger, have seen the value of their shares collapse by over

**40%**

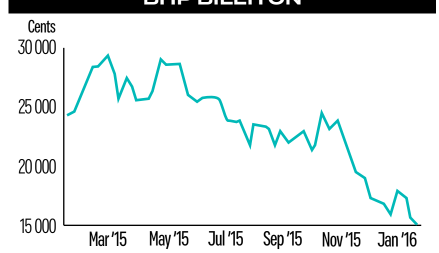
since the company listed in May last year.

South African investors who have shares in South32, spun off from BHP Billiton in 2015 following its demerger, have seen the value of their shares collapse by over 40% since the company listed in May last year. This and prospects for commodities, as well as the possibility that it will slash dividends, makes BHP Billiton an investment only for those who are prepared to ride out commodity cycles and take on some risk. For those that think it offers value now that the price is near its 10-year low, it may be worth considering.

Gallo Images/iStock

**Andrew Mackenzie**
CEO of BHP Billiton

**BHP BILLITON**




| | |
|---|---|
| 52-week range: | R146.45 - R281.08 |
| Price/earnings ratio: | 14.09 |
| 1-year total return: | -26.95% |
| Market capitalisation: | R858.69bn |
| Earnings per share: | $0.64 |
| Dividend yield: | 12.02% |
| Average volume over 30 days: | 3 231 729 |

SOURCE: INET BFA

4

## NASPERS*

**Market cap:** R847.7bn

**P/E:** 92.2

**Dividend yield:** 0.24%

Naspers, which costs R2 000 a share and trades at a P/E of close to 100, is the most expensive share among the JSE's largest five companies.

This has not stopped investors from piling in – and they have been rewarded. The Naspers share price grew over 20% in the past year, and over 400% in the past five years.

Much of the gain has been attributed to the group's investment in 34% of Chinese internet company Tencent, although it has diversified significantly into a number of countries and new business areas, including e-commerce.

Naspers, which is listed on the JSE with an American Depository Receipt (ADR) listing on the London Stock Exchange, operates in more than 130 countries with operations in e-commerce and other internet services, video entertainment and print media.

In the year to March 2015, core headline earnings grew 30% to R11.2bn and over 10 years, revenues have grown at a compound rate of 27% and trading profits 25%. Since then, the pace of growth has quickened, and at the September 2015 interim stage, e-commerce helped lift revenue 24% to R74.3bn while core headline earnings increased 45% to R8.8bn, with Tencent and the South African video-entertainment business being the main contributors.

The Naspers share price grew over **20%** in the past year, and over **400%** in the past five years.

From its beginnings as a South Africa-based print media company, Naspers now derives almost 60% of its revenues from internet and e-commerce businesses and less than 30% of its revenues are sourced in SA, although it is the only one of the JSE's top five value companies to have its primary listing on the JSE with a significant South African shareholder base. Naspers, through its diversification, has proven its ability to continue to find high- growth investments at the forefront of technological change and the P/E indicates investors expect it to continue to do so. According to INET BFA, analysts remain convinced that Naspers is a buy.

Analysts continue to expect Tencent to outperform, according to ft.com, and as many investors consider Naspers a cheap entry into Tencent, there is no reason to believe Naspers will not continue to be popular among investors.

At the same time, the company is developing its e-commerce assets, which should start to produce profit over the next few years. Late last year Naspers concluded its $1.2bn acquisition to increase its stake in Russia's largest online classifieds platform Avito from 17.4% to 67.9% to boost its e-commerce portfolio.

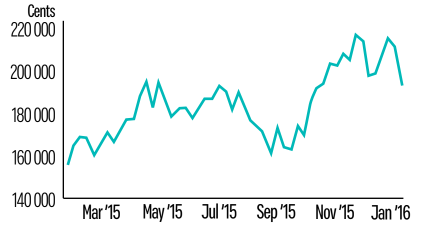
However, there is some concern about pay TV, which at one point was a major contributor to Naspers's value and which continues to grow. However, pay TV is losing popularity as other pay-per-view and download technologies come to the fore.

*finweek *is a publication of Media24, a subsidiary of Naspers.*

**However, there is some concern about pay TV, which at one point was a major contributor to Naspers's value...**

**Bob Van Dijk**
CEO of Naspers

**NASPERS**




| | |
|---|---|
| 52-week range: | R1521.98 - R2270 |
| Price/earnings ratio: | 92.21 |
| 1-year total return: | 13.92% |
| Market capitalisation: | R847.71bn |
| Earnings per share: | R20.96 |
| Dividend yield: | 0.24% |
| Average volume over 30 days: | 1 198 247 |

SOURCE: INET BFA

# 5

## COMPAGNIE FINANCIÈRE RICHEMONT SA

**Market cap:** R612.84bn

**P/E:** 31.2

**Dividend yield:** 2.07%

Johann Rupert's Richemont provides a unique investment for South African investors as it is a rand hedge stock in the rarified luxury goods market.

The share price, however, has been the second-worst performer of the top five JSE stocks by value over the past year, increasing only 5%.

This is partly due to management's wary view of trading conditions for its brands, which include Cartier, Piaget and Montblanc, over the next few months.

Richemont's most recent financials show that in the six months to September last year, sales grew 15% to €5.bn, or by 3% at constant exchange rates. Richemont said strong sales through its own boutiques were offset by mixed wholesale sales, which were particularly soft in the Asia Pacific region.

Operating profit increased by 6% and profit by 22% to end September.

**Richemont remains a staple in a mixed portfolio and is unique among them because of its focus on luxury goods, which are arguably less volatile than consumer-facing companies.**

In October, however, sales dropped by 1% at actual exchange rates and by 6% in constant currency terms. Growth in Europe and Japan offset "continuing weakness in Asia Pacific and the Americas". Management warned that "for the second half of the year, we expect the situation, particularly in wholesale, to continue to be challenging", although it "remain[s] optimistic for the long term as the demand in the retail environment remains healthy, demonstrating the continued desirability for the craftsmanship and quality of our Maisons".

Recent reports indicate that exports of Swiss watches made by companies like Richemont, Swatch and LVMH's Tag Heuer and Hublot recorded their worst November in five years, largely due to poor sales to Asia, particularly Hong Kong and China. In November exports to Hong Kong dropped a massive 27%. Richemont's specialist watchmakers account for 30% of its sales, while its jewellery Maisons make up 54%.

*The Wall Street Journal* reported that Richemont "sent a chill across the European luxury sector" after its earnings missed analysts' forecasts and it said it expected a tough end to the year, "taking the shine from a strong performance at its high-end jewellery business". INET BFA data, however, indicates analysts still consider Richemont a buy. According to ft.com, the analyst consensus was that Richemont would outperform the market, a view they have held for two years.

Richemont was one of the few rand-hedge stocks available to South African investors a few years ago. Now all of the top five largest JSE shares offer investors a rand hedge. However, it remains a staple in a mixed portfolio and is unique among them because of its focus on luxury goods, which are arguably less volatile than consumer-facing companies, and certainly less volatile than those whose share price reflects commodity cycles. ■

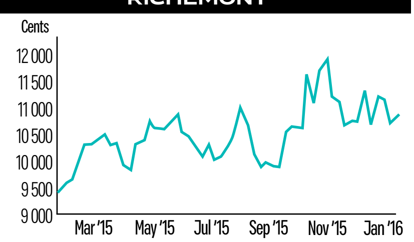
editorial@finweek.co.za

**Data was correct at the time of going to print on 13 January.*

Richemont's specialist watchmakers account for **30%** of its sales, while its jewellery Maisons make up **54%.**

**Johann Rupert**
Chair of Richemont

**RICHEMONT**




| | |
|---|---|
| 52-week range: | R90.81 - R121.74 |
| Price/earnings ratio: | 31.2 |
| 1-year total return: | 6.13% |
| Market capitalisation: | R612.84bn |
| Earnings per share: | €2.86 |
| Dividend yield: | 2.07% |
| Average volume over 30 days: | 6 817 551 |

SOURCE: INET BFA

# THE DEAL THAT WILL UNBURDEN CELL C

By Larry Claasen

Cell C has had an eventful year, which ended with Blue Label Telecoms announcing its intention to buy a stake in the mobile operator. What is in it for Blue Label and what does the deal mean for Cell C?

When it came to corporate action, the past year was anything but dull for Cell C. The mobile operator first had its hands full trying to scuttle the proposed merger between rivals Neotel and Vodacom. It then announced plans in June to once again restructure its debt, with plans to raise €240m (R3.3bn) in new euro notes at an interest rate of 8.625%.

This was followed by Telkom saying in September it was in the market to take control and was in discussions with Dubai-based Oger Telecom, which holds 75% of Cell C. At about the same time Cell C CEO José Dos Santos told Fin24 that the group would also consider listing on the JSE.

In mid-November news broke that it could not reach an agreement with Telkom and it was generally assumed that all the corporate action was done for the year. But then Blue Label Telecoms surprised many when it announced in early December that it wants to buy a 35% stake in Cell C in a R4bn deal.

Under the proposed deal, Cell C's management and staff would get a 30% stake at a cost of R2.5bn and 3C Telecommunications – Oger Telecom's local holding company – would retain 30%. The arrangement would recapitalise Cell C, as it is expected to reduce net debt from about R17bn to around R8bn, according to ratings agency Standard & Poor's (S&P). The deal is supported by the boards of Cell C and 3C Telecommunications and is expected to be concluded on 1 June this year.

Another positive is that a component of the proposed debt recapitalisation is to convert all debt into South African rand, which could reduce the currency risk on debt because Cell C sources all its revenues in rand, S&P said. Currently 90% of Cell C's debt is in US dollars and euros.

Blue Label Telecoms surprised many when it announced in early December that it wants to buy a

35%

stake in Cell C in a

R4bn

deal.

**Keith McLachlan**
Fund manager at Alpha Wealth

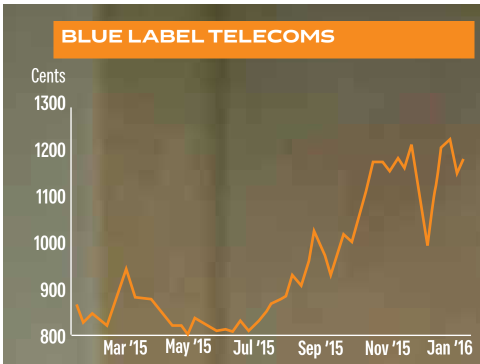
The deal looks like a good one for Cell C, says Alpha Wealth fund manager Keith McLachlan. It has had an onerous debt that has been a burden on it since its inception and any move to reduce it can only work in its favour. "An injection of capital and a reduction in debt can only help." S&P agrees, saying the deal would "materially improve Cell C's financial profile and prospects for sustainability while it invests in infrastructure to gain market share".

## Infrastructure investment

Getting a funding structure in place that was no longer a burden on the group was one of the key things Cell C needed to sort out. It especially needed to do this in light of its pledged R8bn to roll out a high-speed LTE network, which will enable it to compete with MTN and Vodacom in providing mobile data services.

The importance of setting up this high-speed network cannot be underestimated. The mobile voice market has matured and without the network it will struggle to get parity with its rivals in a data market that is growing in importance. The move to more data-orientated services, however, requires more than a hefty investment, as it has forced operators to come up with a very different business model.

Under the old mobile voice model, the goal of operators was to charge as much as they could but have as little traffic on the network as possible. This way they could have huge margins but not put any stress on their infrastructure. They cannot pull this trick




| | |
|---|---|
| 52-week range: | R7.60 - R12.85 |
| Price/earnings ratio: | 14.71 |
| 1-year total return: | 46.61% |
| Market capitalisation: | R8.16bn |
| Earnings per share: | R0.80 |
| Dividend yield: | 2.56% |
| Average volume over 30 days: | 1 129 476 |

SOURCE: INET BFA

**José Dos Santos**
CEO of Cell C

Gallo Images/Getty Images

**Cell C said it was "operationally profitable" last year and grew subscribers to more than 22m, from 9m in 2012.**

when it comes to selling data. As the margins on selling data are a lot thinner, the goal now is to get a lot more traffic onto their networks.

This however means for them to retain customers, their networks will not only have to provide faster download speeds, they will also have to be robust enough to cope with a large amount of traffic.

The competition for data users is heating up. Vodacom's data subscribers have risen from 12m in June 2012 to 17.7m in June 2015. There was a similar story for MTN SA, which saw data revenue rise 40% and contribute 31.5% to total revenue for the quarter to end September. Cell C, which doesn't publish detailed financial statements, said it was "operationally profitable" last year and grew subscribers to more than 22m, from 9m in 2012.

## What's in it for Blue Label?

While the deal with Blue Label might be a good one for Cell C, the jury is still out on whether it is a good one for Blue Label, says McLachlan. (Cell C did not respond to queries at the time of going to press. Blue Label declined to comment.)

The biggest issue that needs to be cleared up is what impact the deal will have on Blue Label's relationship with Vodacom and MTN. With about 150 000 point-of-sale devices connected to its network, Blue Label is a key player in the SA mobile phone market as all the mobile operators depend heavily on it to resell their airtime.

Cell C's rivals might not like the proposed deal as it could give preferential treatment to Cell C, but McLachlan says given how dependent they are on Blue Label, they might be forced to just accept it. "Even if MTN and Vodacom are unhappy about, it does not mean they can do anything about it."

McLachlan says MTN and Vodacom could roll out their own airtime distribution networks but the cost to them would be huge.

Although McLachlan is hesitant to make a call on how the deal will play out for Blue Label, he makes the point that both companies can only benefit from the extensive knowledge Blue Label's co-CEO brothers – Brett and Mark Levy – have of the SA telecoms market.

This knowledge has seemingly served the group well. In a telecoms market where growth has been flat and in some cases even fallen over the last few years, it said in a statement that it expected basic earnings per share to rise at least 20% to 52.35 for the half-year to end November.

McLachlan says while the deal with Cell C appears to be an "opportunistic" move, Blue Label's expansion into India and Mexico looks like investments that will pay off over the long term.

Though its operations in these countries have yet to make a significant contribution to earnings, the fact that it aims to be a dominant distributor of digital products in these markets could see it turn around very quickly. "Right now they're making a land grab. But it would not surprise me if we see a hockey stick growth curve." ■

**editorial@finweek.co.za**

By Ciaran Ryan

# SA INNOVATORS FEEL THE FUNDING PINCH

Many local inventions, from a boerewors grill to a tool that easily opens the back cover of a cellphone, are proving successful globally. But if patent application numbers are anything to go by, a lack of research and development funding is dampening local innovators' enthusiasm.

South African companies are spending less on research and development (R&D), as was evident when looking at the number of patent applications filed. This was according to Paulo Lopes, partner at Johannesburg-based Sibanda & Zantwijk Patent Attorneys.

The company compiled the accompanying table (see page 34), which indicates that the number of patents filed in 2015 was 8 572 – this number is 20% down on the 10 954 filed in 1996.

Of more concern is the drop in the number of provisional patent filings, which is down more than 56% over the same period.

Provisional patent filings are valid for 12 months and provide an opportunity for inventors to test their products and ideas in the market before applying for final patent registration. While the majority of provisional patent filings were by South Africans, Lopes estimates only about 5% of the national phase patent filings are from a South African origin, based on the number of Patent Cooperation Treaty (PCT) applications reflecting a South African priority claim.

**Paulo Lopes**
Partner at Sibanda & Zantwijk Patent Attorneys

"There is no doubt that companies are spending less on R&D, and the result is that they are filing fewer patent applications," says Lopes.

National phase patent filing is the final step in the filing process. The patent is then tested for novelty and inventiveness, and this is called the prosecution step, which can last two to five years. The patent may need to be amended before it is finally granted. Patents must then be renewed annually to secure the 20-year life of the patent.

One of the reasons for the decline in new

# LOCAL INVENTIONS GOING GLOBAL

Sibanda & Zantwijk launched a DIY online patent service called Ideanav.co.za, which it says reduces the costs of patent renewals by up to 70%. The firm went one step further, offering industrial design, 3D modelling and printing to give the customer a functional prototype.

Paulo Lopes, a partner at the firm, points to an invention he has dealt with – a boerewors grill, designed on a computer a few steps away and then materialised on a 3D printer he has in the office. Another South African invention that is gaining international traction is the G-Tool, a simple device for removing the back cover of cell phones for the purposes of repairing them. The first prototype was developed on the same 3D printer, and the product now sells around the world.

The G-Tool PanelPress is used for reshaping bent aluminum back casings of mobile devices.

Images: www.gtool.com

"Having dealt with so many inventors and innovators, we realised there was a need for a far more comprehensive service than simply acting as their patent attorney. We can now take them all the way through from concept to prototype, including the design of marketing posters, and provisional patent filing," says Lopes. "And we can do all of this in-house for as little as R22 000, while maintaining the confidentiality of clients' information."

patent filings could be a trend by several multinationals to consolidate international R&D, according to Lopes. In 1999 SA signed on to the PCT, which provides a unified procedure for filing patent applications.

But he also reckons that the high cost of registering a patent could be blamed for the decline in local investors filing.

"Other reasons could include the weak political and economic outlook," Lopes adds.

Although the cost of filing patent applications in South Africa is reasonably affordable, the high cost of registering foreign patents can also inhibit innovation, according to Lopes. It can cost between R30 000 and R50 000 per country on average to file a foreign patent application, plus as much as another R120 000 to R150 000 to complete the filing process. On top of this, there are annual renewal fees.

The number of patents filed in 2015 was 8 572 – this number is **20%** down on the 10 954 filed in 1996.

An inventor's first step is usually a patent search to see whether anyone else had the idea first, anywhere in the world. If so, the idea is not patentable. To save money, many inventors now use Google search tools to see if their idea has been patented before, but unless you know what you are looking for, this can give false positives that a more thorough search by a patent attorney would uncover.

According to Adams and Adams, SA's largest firm of patent and trademark attorneys, computer technology is now the biggest source of patent applications in the world, surpassing that of all other industry sectors. This is based on figures from the World Intellectual Property Organization (WIPO), which reported that the number of patent applications worldwide topped 2m for the first time in 2011. So while South African innovation appears to be on the wane, the same is not true of other countries.

While international patent applications have increased substantially, challenges to those patents have been equally vociferous and numerous.

## INCREASE IN GLOBAL PATENT VOLUME ACROSS SECTORS

Research by Thomson Reuters shows that patent volumes worldwide reached a record high in 2014, though the rate of growth in patent filings is slowing. Some key findings of the research include:

- the biotechnology industry grew 7% from 39 685 patents in 2013 to 42 584 patents in 2014;
- the cosmetics and wellbeing industry grew 8% from 10 197 patents in 2013 to 11 017 patents in 2014;
- the pharmaceutical industry grew by 12% from 99 950 patents in 2013 to 111 479 patents in 2014; and
- the food, tobacco and beverage industry grew by 21% from 21 758 patents in 2013 to 26 333 patents in 2014.

However, some industries showed a decline in patent volume growth. The aerospace and defence industry decreased from 63 080 patents in 2013 to 62 162 patents in 2014. This is a decline in growth of 1%. There also was no percentage growth in the home appliances sector. Growth in the medical devices sector decreased by 6% and growth in the semiconductors industry declined by 5%.

## Who's innovating?

The world of medicine is abuzz with talk that a cure for cancer is now within reach, and that Alzheimer's disease may be next to succumb to the inexorable march of science. In the past two years the US Federal Drug Administration (FDA) also approved 19 new cancer drugs.

According to a report entitled *Future Postponed*, published by the Massachusetts Institute of Technology, 2014 was a year of notable scientific highlights, including:

**Although the cost of filing patent applications in South Africa is reasonably affordable, the high cost of registering foreign patents can also inhibit innovation.**

- the first landing on a comet, which has already shed important light on the formation of the Earth;
- the discovery of the Higgs boson particle, which provides critical information on the origin of the universe;
- development of the world's fastest supercomputer;
- breakthroughs in cancer drug research and the patenting of a new line of immune-therapy drugs, which may herald the end of cancer as a fatal illness; and
- a surge in research on plant biology that is uncovering new and better ways to meet global food requirements.

America's emergence in 2014 as the world's largest oil producer was hailed as a milestone for energy independence. This has its roots in the fracking industry, which in turn owes its success to new directional drilling technology, diamond drill bits tough enough to cut shale, and the first major hydraulic fracturing experiments. Many of these breakthroughs were achieved with government-sponsored research grants.

But with each step forward, a new challenge arises that taxes the minds of innovators. The outbreak of the Ebola epidemic in West Africa, now contained, is a reminder of how vulnerable the world is to a wider pandemic of emergent viral diseases.

China has emerged as a major global innovator, exemplified by the development of the world-leading Tlanhe 2 supercomputer, capable of performing quadrillions of calculations per second. This, say the authors of the report, signals a potential vulnerability for US defence and commercial interests as China steps up its research into cybersecurity, which is likely to be one of the primary areas of innovation in the coming years.

Another area of massive R&D investment is defence technology, as the world's major powers battle terrorism and other perceived threats. New light-reflecting nano materials have been developed that make it harder to detect fighter planes and other vehicles, while nanocrystalline alloys as strong as steel, but much lighter, could be used for helmets and protective clothing for soldiers to shield them against ballistic fragments and blast waves. ■

**editorial@finweek.co.za**

# SOUTH AFRICAN PATENT FILINGS

## (1996-2015)

| | | | Complete patent filings | |
|---|---|---|---|---|
| Year | Total patent filings | Provisional patent filings | National phase patent filings | Convention patent filings |
| 1996 | 10 954 | 3 977 | 0 | 6 977 |
| 1997 | 11 734 | 4 467 | 0 | 7 267 |
| 1998 | 11 961 | 4 563 | 0 | 7 398 |
| 1999 | 7 879 | 4 711 | 1 | 3 167 |
| 2000 | 7 821 | 4 404 | 1 253 | 2 164 |
| 2001 | 10 561 | 4 044 | 4 042 | 2 475 |
| 2002 | 10 417 | 3 759 | 4 389 | 2 269 |
| 2003 | 9 991 | 3 730 | 4 896 | 1 365 |
| 2004 | 10 426 | 3 612 | 5 222 | 1 592 |
| 2005 | 10 486 | 3 418 | 5 561 | 1 507 |
| 2006 | 10 874 | 3 141 | 6 205 | 1 528 |
| 2007 | 11 250 | 2 683 | 6 688 | 1 879 |
| 2008 | 10 885 | 2 817 | 6 640 | 1 428 |
| 2009 | 9 239 | 2 461 | 5 615 | 1 163 |
| 2010 | 9 324 | 2 417 | 5 806 | 1 101 |
| 2011 | 9 564 | 2 298 | 6 151 | 1 115 |
| 2012 | 9 792 | 2 296 | 6 301 | 1 195 |
| 2013 | 9 772 | 2 185 | 6 326 | 1 261 |
| 2014 | 9 548 | 1 993 | 6 523 | 1 032 |
| 2015* | 8 572 | 1 724 | 5 821 | 1 027 |

*The 2015 records are up to 19 November 2015.

**Please note:**

1. "Convention patent filings" refers to complete patent applications lodged into South Africa in the first instance, through a South African priority claim or through a foreign priority claim.
2. South Africa only became party to Patent Coopration Treaty in March 1999.
3. Sibanda & Zantwijk assume that the patent filings (provisional, national phase, convention) originating from SA over the last 10 years make up only 20% to 35% of the total number of filings in any one year.

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# Why South Africa should undo Mandela's economic deals

By Patrick Bond

The economic policies that were agreed upon by the ANC at the fall of apartheid did not yield the ideal outcome for the majority of South Africans, as has become evident since then. Patrick Bond assesses the damage caused by these controversial agreements and proposes a way forward.

Is South Africa finally maturing to the point that the economic – not just political – compromises of the 1990s democratic transition can be reconsidered? When engaging student activists, for example, University of the Free State rector Jonathan Jansen frets that:

"If [former President Nelson] Mandela gets any mention at all, it is as a sell-out, the man who led South Africa into a soft transition that left white privilege undisturbed and black poverty undiminished."

There has been tough questioning of Mandela's deals by a diverse range of critics. They include:

- the leader of the opposition Economic Freedom Fighters Julius Malema;
- Black Consciousness ideologue Andile Mngxitama;
- Soweto community activist Trevor Ngwane (way back in 2003); and
- Stellenbosch political economist Sampie Terreblanche.

Insiders like Winnie Madikizela-Mandela and ANC stalwart and former minister Ronnie Kasrils have equally been critical of the compromises Mandela made. In 2013 Kasrils explained how Mandela signed a self-sabotaging "Faustian Pact" with global capital.

In mid-1994 I saw those devils up close when I participated in government policy debates as editor of the Reconstruction and Development Programme White Paper, and again as drafter of the aborted 1996 National Growth and Development Strategy (Gear). My view is that there's a bit of 'structure' – externally imposed necessity – and individual 'agency' in answering 'both' to the question:

Was Mandela pushed, or did he jump?

**The neoliberal compromises demonstrably failed the South African society, economy and natural environment.**

Gallo Images/iStock

## THE CRIPPLING ECONOMIC COMPROMISES

In his 2005 book and a more recent article, former Presidency official and now academic Alan Hirsch justifies neoliberal compromises on grounds the new government was "constrained by concerns for economic stability".

Yet weren't government's deals the main cause of subsequent economic instability, including the half-dozen currency crashes between 1996 and 2009 when Trevor Manuel was finance minister?

The neoliberal compromises demonstrably failed the South African society, economy and natural environment, no matter what one thinks of the ethics and politics of these Faustian Pacts.

**Here are the dozen biggest devils that hobbled Mandela's economic legacy:**

- The repayment of the $25bn apartheid-era foreign debt. This denied Mandela money to pay for basic needs of apartheid's victims.
- Giving the South African Reserve Bank formal independence. This resulted in the insulation of the central bank's officials from democratic accountability. It led to high interest rates and the deregulation of exchange controls.
- Borrowing $850m from the International Monetary Fund in December 1993, with tough conditions persisting for years. These included rapid scrapping of import surcharges that had protected local industries, state spending cuts, lower public sector salaries and a decrease in wages across the board.
- Reappointing apartheid's finance minister Derek Keys and Reserve Bank governor Chris Stals, who retained neoliberal policies.
- Joining the World Trade Organization on adverse terms, as a "transitional", not developing economy. This led to the destruction of many clothing, textiles, appliances and other labour-intensive firms.
- Lowering primary corporate taxes from 48% to 29% and maintaining countless white people's and corporate privileges.
- Privatising parts of the state, such as Telkom, the state-owned telecommunications company.
- Relaxing exchange controls. This led to sustained outflows to rich people's overseas accounts and a persistent current account deficit even during periods of trade surplus, and raising interest rates to unprecedented levels.
- Adopting the neoliberal macroeconomic policy Gear. This policy not only failed on its own terms, it also caused developmental austerity.
- Giving property rights dominance in the constitution, thereby limiting its usefulness for redress.
- Approving the "demutualisation" of the two mega-insurers Old Mutual and Sanlam. It was the privatisation of historic mutual wealth for current share owners.
- Permitting most of SA's 10 biggest companies to move their headquarters and primary listings abroad in the late 1990s. The results are permanent balance of payments deficits and corporate disloyalty to the society.

I believe that this list shows that the ANC leaders were not "constrained" in the 1990s by a desire for economic stability but entered into a pact with Afrikaner nationalists and big business. The constraint was mainly a concern to comply with world economic orthodoxy at a time their prior Moscow sponsors had given up the ghost.

## STRUCTURAL CONSIDERATIONS

Consider also the structural dynamic then, and still, in play: capitalism's "financialisation". As manufacturing and mining declined, the share of finance in GDP soared from 6% in 1994 to 13% by 2010.

Financial liberalisation gave SA the appearance of a healthy GDP growth of 5% per year just prior to the 2008 world crisis. Yet given the 1990s deals, this growth was largely froth.

It was whipped up by spending on the 2010 World Cup, by bribery-induced white elephant infrastructure and by the 2002-08 commodity price blip.

In addition, the early 2000s witnessed a consumer debt boom. But by 2008 soaring interest rates made repayment obligations difficult for 70% of borrowers. SA's medium-term interest rates are the fourth-highest among the world's 57 main economies, lagging only Brazil, Turkey and Pakistan.

> As manufacturing and mining declined, the share of finance in GDP soared from 6% in 1994 to **13%** by 2010.

Financial froth also included what *The Economist* measured as the fastest-rising speculative real estate bubble on earth from 1997 to 2008.

The froth included insane valuations of the country's stock market. By late 2015, the market value of the JSE was 320% higher than GDP, the Buffett Indicator. This was the highest recorded level of any major country's modern stock exchange, with only Singapore (304%) and Switzerland (281%) close.

Add and stir SA's world-leading inequality, a poverty rate of 63% and an unemployment spike from 16% in 1994 to 26% by 1998 with a plateau since.

## WHAT NEEDS TO BE DONE?

Given the resulting damage, isn't it time, finally, to honestly confront the dozen devils, and to discuss how to reverse the damage, by undoing the deals?

The ANC is notorious for talking left and walking right. Forced corporate repatriation is one issue. Others include lowering interest rates and, to stop capital flight, reimposing tougher exchange controls (as the Chinese did recently to slow outflows).

Then a genuine industrial policy could substitute for imports, rebalance the economy and prioritise labour-intensive ecological sustainability. Lower interest rates would also increase policy space to raise state social spending and reorientate infrastructure to meet unmet basic needs.

But to adopt such obvious reforms would require radical economic transformation led by an honest government, not just rhetoric from a duplicitous, exhausted nationalist regime. And most important, it would require a powerful democratic movement from below. ■

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THE CONVERSATION

*Patrick Bond is Professor of Political Economy at the University of the Witwatersrand. This article was first published by The Conversation Africa and can be accessed at https://theconversation.com/africa.*

# on the money

**THIS WEEK:**

>> **Motoring:** Understanding your motor plan *pg.41*
>> We test drive the new Mustang *pg.43*
>> **Personal finance:** Taming your relationship with money *pg.42*

ENTREPRENEUR PROFILE

**By Mandy de Waal and Jon Pienaar**

# Education for Africa: Have internet, will study

Online learning company, GetSmarter, has a singular goal, says its CEO and co-founder Sam Paddock: To improve lives through better education.

**Sam Paddock**
CEO of GetSmarter

GetSmarter started off as a family business, with co-founder and CEO Sam Paddock, his father, Graham, mother, Mandy, and brother Rob. Graham was a sectional title lawyer, who was involved in training property managers around the country, but found that he didn't enjoy travelling. The internet offered an opportunity to convert this training into a suite of online property law courses, which Paddock and his brother Rob helped to set up, and which did very well.

Previously, Paddock co-founded an online wine store called GETWINE, and came up with the idea of offering a wine appreciation course. Created with the assistance of Charl Theron of Stellenbosch University's department of viticulture and oenology, this too was successful. Soon the fledgling company was providing online learning in other areas, from internet system administration to project management.

Today, GetSmarter's campus is an unfurling expanse of interconnected open spaces and meeting rooms, each themed with a different slogan or business value. Throughout, there are chalkboards, whiteboards, pinboards, big plasma screens and, in one instance, a theatrical marquee with the phrase "Play to Win" spelled out in lights.

The open-plan spaces and meeting rooms of this campus are all branded with one, or

Images by Jon Pienaar

more, of GetSmarter's core beliefs. Paddock explains: "These values help our team make decisions, and answer the question: 'What should or shouldn't we do?'. These are statements of what we value at GetSmarter, and give rise to a set of attitudes and behaviours that we hire for, fire for, and reward."

## The reach

Today GetSmarter employs 220 permanent staff and 80 part-time teachers, offering some 60 online short courses, in collaboration with the University of Cape Town (UCT) and other partners. In addition to the short courses, postgraduate programmes currently being offered include the UCT Advanced Diploma in Business Project Management, and the UCT Postgraduate Diploma in Management in Marketing.

Through an initiative called Across Africa, GetSmarter and UCT have made postgraduate programmes available throughout the continent, with applications coming in from countries as far afield as Tanzania and Mauritius.

Students who successfully complete a course are presented with a certificate from the universities that collaborate with GetSmarter – these include UCT (including its Graduate School of Business) and Wits.

In 2015, GetSmarter educated well over 10 000 working professionals in online university short courses. "[This] constitutes between 100 and 150 hours of learning each, at a pace of between 10 and 15 hours a week," says Paddock. Short courses normally take place over 10 weeks.

Since 2012, GetSmarter has annually enjoyed **100%** growth year-on-year. Revenues in 2012 were R20m – by 2015 this had grown to R128m.

The company boasts a 94% course completion rate; to date, some 40 000 working professionals have done distance learning courses through GetSmarter.

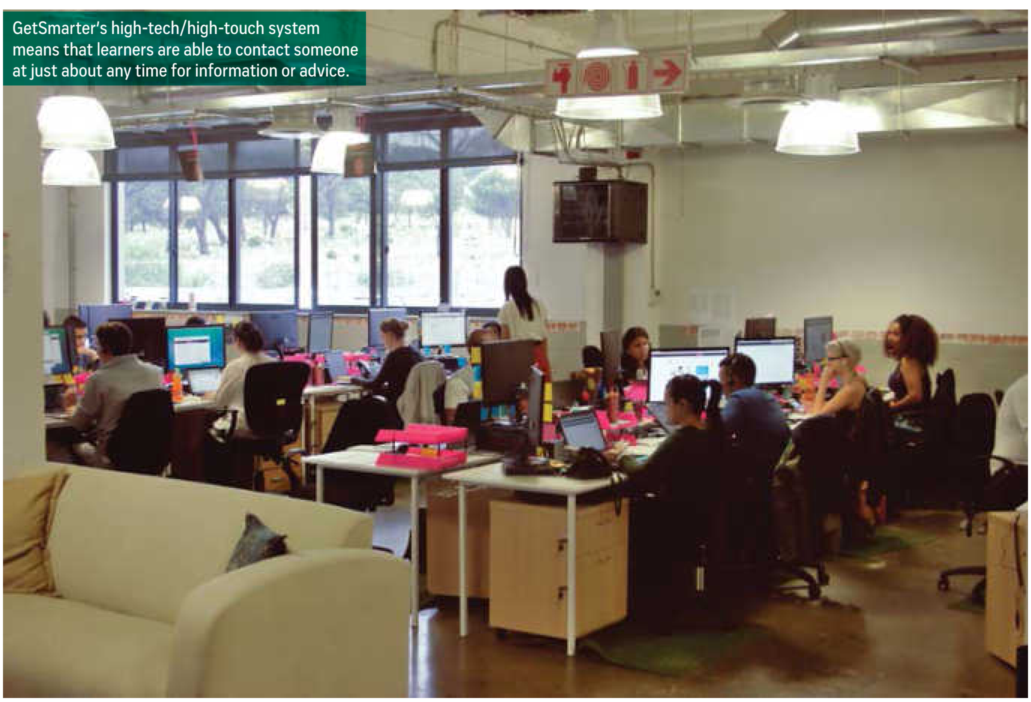
What drives GetSmarter's success is its unique learning methodology which results in excellent outcomes for students. This is why Paddock is so obsessed with ensuring that he and his team live the company's values.

## Learning online

GetSmarter's blended learning model combines the use of an interactive online platform with high-touch support. Learners have direct access to their fellow students, a dedicated course coach (an academic) and a course instructor (an industry expert).

Technology is key: every learning activity is online, so everything can be tracked. The system notes when learners log in; when they post questions; when they watch video lectures as well as how much of the lecture they watch; how long it takes for the faculty to answer learner questions and so on.

Paddock explains: "If we see a trend with students watching a particular lecture and then completing an optional exercise, for example, and then doing really well on a specific learning outcome, we can start to piece together what sort of teaching content performs best. This is very powerful when



GetSmarter's high-tech/high-touch system means that learners are able to contact someone at just about any time for information or advice.

## KEEPING UP

"I realise I don't have all the skills I need, so I went looking for a mentor," says GetSmarter CEO Sam Paddock, adding: "Mentorship and coaching are important to growth, but it is key to have the right coach ... I am fortunate in that my key learning relationship has been with Mark Lamberti."

Lamberti is the CEO of Imperial Holdings, spent 19 years at the helm of Massmart Holdings, is a non-executive director at Business Leadership South Africa and has won many prestigious awards.

How did a fledgling entrepreneur connect with a mentor with such esteemed credentials? For Paddock it was simply a matter of firing off an email. "I first wrote to him when I was 31 (Paddock is now 33). I had a company of 80 people and I was starting to realise how challenging it is to grow a business," says Paddock. "We were growing so quickly, and I needed to shift from being a chaotic, creative entrepreneur to a leader with a sustainable business model."

Says Paddock: "I believe that relationships lie at the centre of learning, and I needed to have someone who could inspire me – a thinking partner and someone who could just share their insights that I could learn by. He has blown my world open," he says. Paddock does a quarterly review with Lamberti, which means he gets to spend one hour with his mentor every three months.

**Mark Lamberti**
CEO of Imperial Holdings

**According to the UN Broadband Commission, Ethiopia, Niger, Sierra Leone, Guinea, Somalia, Burundi, Eritrea, and South Sudan are eight of the ten countries in the world with less than 2% internet penetration.**

you think about all the potential uses of these learning analytics and how they can help us improve teaching."

One of the key challenges in distance education, Paddock maintains, is keeping the student motivated and on track. Students who fall behind at the beginning of a course, may never catch up. GetSmarter's diagnostic tools 'flag' learners who may be 'at risk'. "For example," says Paddock, "we can use data to determine if a learner hasn't prepared sufficiently for an assignment. The result? We can intervene with an email or a telephone call to highlight the potential risk, and help the learner course-correct."

Why should industry invest in learning? Paddock says this is a no-brainer because businesses that invest in learning do well. "Having a learning-focused culture results in increased motivation, better decision making, and the adoption of a testing hypothesis," he says.

A testing hypothesis is similar in thinking to the scientific method – interrogating assumptions and being open to alternatives that improve processes. It's about continuously striving for improvement, rather than settling for the 'tried and true'.

## Bridging the gap

While e-learning presents solutions for education in Africa, there are still many challenges. A pressing problem to making education accessible is bandwidth, which remains a stumbling block. According to the UN Broadband Commission, Ethiopia, Niger, Sierra Leone, Guinea, Somalia, Burundi, Eritrea and South Sudan are eight of the ten countries in the world with less than 2% internet penetration.

For wealthier African countries, like South Africa, Kenya, Ghana and Nigeria, connectivity is more readily available, and generally cheaper.

Another issue is that most tertiary institutions in Africa still use textbooks from the UK, the USA or France. Locally developed curriculum content is sorely needed, and still needs to be developed. Thirdly, educators themselves have grown up in systems that are archaic, insufficient and largely inappropriate. Political change has sometimes brought failed experiments (think of SA's Outcome Based Education in South Africa). This has created its own legacy of dysfunction.

Educators need to be trained in using technology, but often governments have poor or nonexistent ICT policies. SA is a good case in point.

E-learning helps bridge the gap and is proving incredibly adept at meeting business demand. As businesses expand, their demand for skilled human capital grows, and GetSmarter is ideally placed to fulfil this demand.

In fact, since 2012, GetSmarter has annually enjoyed up to 100% growth year-on-year. Revenues in 2012 were R20m – by 2015 this had grown to R128m.

This places GetSmarter smack in the middle of a massive growth sector. International market research firm, Ambient Insight Research, says that the worldwide market for "Self-paced e-learning" reached $47.9bn in 2015. The global researchers expect e-learning revenues will reach $50.4bn by 2020, and say the sweet spot in this market will be Africa.

"Africa is the most dynamic eLearning market on the planet and has the highest growth rate for Self-paced eLearning in the world at 16.3%," writes Ambient. "Ambient Insight has revised our forecasts significantly upward for most African countries. Revenues reached $523m in 2015 and will nearly double to $1.1bn by 2020."

GetSmarter looks set to ride this wave, providing innovation and upliftment for the next era of African entrepreneurs, workers, business owners and executives. ■

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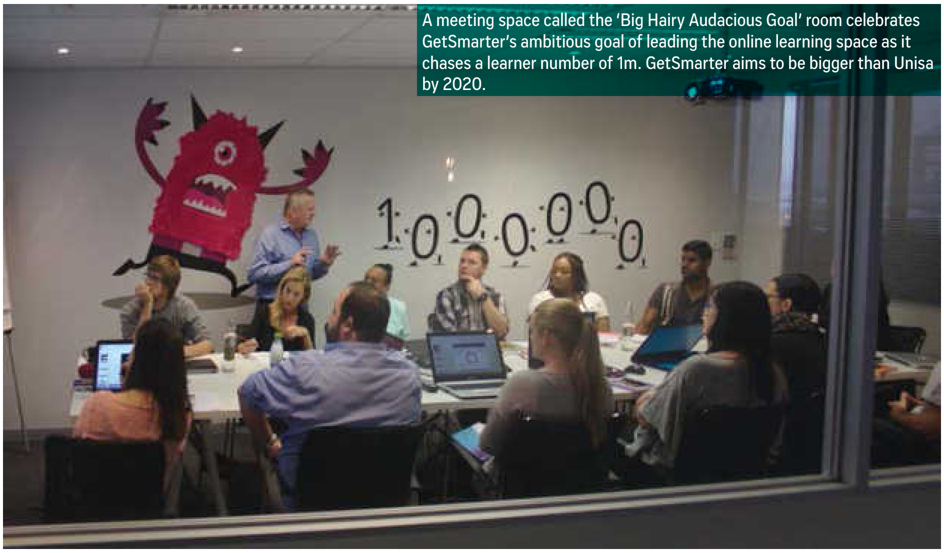


A meeting space called the 'Big Hairy Audacious Goal' room celebrates GetSmarter's ambitious goal of leading the online learning space as it chases a learner number of 1m. GetSmarter aims to be bigger than Unisa by 2020.

By Glenda Williams

# Making sense of motor plans

Many South African motorists have a poor understanding of motoring plans and this could negatively impact their vehicle expenses.

There are approximately 10m cars on South Africa's roads according to the National Association of Automobile Manufacturers of SA (NAAMSA). But according to a recent consumer survey by MotorHappy – a subsidiary of the Imperial Group – nearly 90% of the 900 South African motorists surveyed are ill-informed about motor products like service plans, maintenance plans and warranties.

According to MotorHappy managing director, Kerry Cassel, the lack of knowledge was not limited to any single demographic, but was present across "all age groups, provinces and genders".

Astonishingly, 85% of the respondents aged 20 to over 60 rate their overall knowledge of their motoring plans as two out of 10, while an additional 4% rate their knowledge a one out of 10, according to the MotorHappy survey released last year. The survey also found that 38% don't know which plan they have, while 50% are unsure of what their plan includes. And 62% of respondents are unsure of the start and end dates of their plan.

## Motoring, maintenance and warranties

Most new vehicles are sold with some sort of motoring plan built into the metal (see sidebar). Many luxury cars boast full maintenance plans while middle-segment vehicles often sport service plans, says WesBank's head of brand and communication, Rudolf Mahoney. But apart from warranty, a service or maintenance plan is more often than not an optional extra for buyers of new entry-level vehicles (see table), with the institution financing the vehicle often financing the additional cost of the plan.

Cassel estimates that around 80% of new vehicles are sold with a motoring plan. And in the used-car segment the historical tendency of warranties has shifted in the past five years to service and maintenance plans, she says.

## Getting up to speed

Unlike motor plans built into the vehicle price, stand-alone motor plans, like those from Bidvest or Liquid Capital, sometimes have a pro-rata refund policy. But whether built-in or stand-alone, motorists need to be up to speed on their plan's terms and conditions. Not servicing a car within the required time period or servicing at an unapproved workshop could invalidate both the service plan and maintenance plan with owners liable for future costs. Even extending a motor plan requires a full service history; all stipulations consumers need to be aware of if they want to get the most out of their motor plans.

**Kerry Cassel**
Managing director of MotorHappy

"While these complex products are often viewed as a grudge purchase, it is vital for motorists to know the details of their car servicing and maintenance requirements as well as inclusions and timelines attached to the motoring plan they have or are paying for," Cassel said following the release of the data.

## Sticking with the programme

By ensuring that a vehicle is properly maintained, which a motoring plan is crafted for, there is an added benefit for motorists: Safety. "Consumers who don't have a service, warranty, or maintenance plan find it very difficult to maintain their vehicles correctly," according to Cassel.

Cost versus benefit will always play a part in plan choice. And while a service plan may appear to be a cost-effective choice, the maintenance plan is more often than not the go-to option thanks to the additional benefits that this plan provides. ■

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## UNPACKING MOTOR PLANS

**While features, benefits, terms and conditions differ from plan to plan, most warrantees, service plans and maintenance plans have the following in common:**

***WARRANTY:*** The guarantee that the manufacturer provides to cover any mechanical or electrical defects/failures that might occur within a certain time or mileage period. Wear and tear is not covered.

***SERVICE PLAN:*** Covers the pre-defined servicing required on a vehicle. Most service plans list parts and labour for items like oil filters, air filters and spark plugs normally attended to and are covered for the specified period/mileage.

***MAINTENANCE PLAN:*** This plan generally includes a service plan and also covers maintenance of items not normally covered by a service plan. Labour and parts as well as some wear and tear items, such as brake pads and shocks, are often covered over the term of the plan. A full maintenance plan often covers just about everything except fuel and tyres.

**SERVICE AND MAINTENANCE PLAN COST COMPARISON – ENTRY-LEVEL VEHICLES** (5-YEARS/60 000KM)

| Model | Retail price | Service plan* | Maintenance plan* |
|---|---|---|---|
| Datsun Go 1.2 Lux | R109 500 | R13 413 | R14 064 |
| Ford Figo Hatch 1.5 Ambiente | R158 900 | 2yr/40 000km plan (two services) included | R12 262.95 |
| VW Polo Vivo Hatch 1.4 Conceptline | R147 900 | R7 889 | R8 892 |

*Prices include VAT.
While maintenance plans often come with built-in warranties, service plans that fall outside of warranty periods generally incur additional warranty extension costs. Extending the Vivo's three-year/120 000km warranty by two years for example would incur an additional R6 840. The Vivo's maintenance plan however comes with a built-in warranty.

By Buhle Ndweni

# 5 steps to a healthy relationship with your money

Money – we love to have it and hate to see it go. Ever caught yourself in a vicious cycle of spending money as soon as it's deposited in your bank account, or blowing the budget because you would rather splash out on a good time now only to regret it later? Three experts share their views on how to fix this love-hate relationship.

**Chris Labuschagne**
CEO of FNB Credit Card

**Gerald Mwandiambira**
Acting CEO of the South African Savings Institute

**Renee Eagar**
Certified financial planner at Brenthurst Wealth Management

January is perhaps the best example of the love-hate relationship many of us have with our money. After a too-merry festive season, "Janu-worry" is often a stressful month where people struggle to make ends meet until payday.

FNB Credit Card CEO Chris Labuschagne says people tend to make money an emotional topic. They 'love' it when they have access to money and enjoy spending it, but the 'hate' side comes in when they have overspent and struggle to pay it back.

Many people have bad relationships with their money because they have not received basic financial management training, says certified financial planner Gerald Mwandiambira, who also serves as acting CEO of the South African Savings Institute.

**Many people have bad relationships with their money because they have not received basic financial management training.**

## HERE ARE FIVE STEPS TO FIX YOUR RELATIONSHIP WITH YOUR MONEY:

**1.** ACCEPT YOU ARE NOT FINANCIALLY LITERATE AND RECTIFY IT

It's okay not to know how to deal with money. "The first step is to empower yourself through financial education, either formally or informally. This can even be through using free resources such as the internet," says Mwandiambira.

**2.** KNOW YOUR FINANCIAL POSITION

Take responsibility for your money and budget, says Labuschagne. "Understand the amount you earn and the amount you spend and that these two have to be in balance. People need access to short-term credit because unforeseen things happen." Overspending on a credit facility every month will get you into financial trouble, he warns.

Renee Eagar, certified financial planner at Brenthurst Wealth Management, says people generally don't budget adequately for food and petrol. "If you take your expense statement, for example, there are so many little things that add up. You may think you are spending R2 000 for food per month, but you are actually spending R3 000," she says.

Instead of seeing money as a barrier because a lack thereof limits your activities, you should see it as an enabling tool that can work for you. However, because of that negative perception, few people try and improve their relationship with money, says Mwandiambira.

**3.** SEEK HELP

Seek assistance to be guided and educated about your money. "In addition to self-help you can seek help from financial planning professionals or other people who are well versed in money matters," says Mwandiambira.

If you find yourself in financial trouble, speak to your financial provider instead of applying for another unsecured loan, says Labuschagne. "Don't pay debt with more unsecured debt. Try to remedy it as soon as possible. It's in the bank and the customer's interest to come to a solution, especially this time of year [...] when we see customers battling after December," he says.

**4.** RESPECT MONEY

It requires a conscious decision to be more responsible with your financial matters, says Mwandiambira. "People do not respect money, they don't respect their change – its small money but R1bn is made up of R1s, and if you don't respect R1, it's going to be difficult for you to reach your financial goals."

The focus should be on saving and investing, not spending, says Eagar. "Make sure that you have a retirement plan, and extra money for medical costs," she says.

**5.** BUILD NEW HABITS

Cultivate a new habit of scrutinising your bank and credit card statements regularly to pick up bad money spending habits.

While there's no hard and fast rule about how often one should look at your statements, Eagar recommends doing it at least once a month if you're on a tight budget.

Checking your statements is important because it forces you to track your expenses, such as an expensive dinner, Labuschagne says. By checking it regularly, you can tweak your budget on an ongoing basis. But if you wait six months and suddenly sit with a R20 000 to R30 000 over-utilisation on your credit card, that's when you start resenting money due to the situation you are in, says Labuschagne.

The trick is to form good money habits that will help you in the long term, such as budgeting and saving. "Once those become engrained as part of your character, you will be in control of your financial affairs," says Mwandiambira. ■

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By Glenda Williams

# Iconic pony car back in SA

The all-new Ford Mustang is not only great looking, it's great to drive.


## About the Mustang

- Six-model line-up
- First launched in 1964
- 51 years of continuous production
- Over 9m Mustangs sold around the world
- More than 8m likes on Facebook
- 9 000 appearances in television, music and video games
- Multiple film appearances
- 35 to 40 Mustang sales anticipated each month via the 128 SA Ford dealers
- Around 3 500 South Africans are on the 18-month Mustang waiting list
- Right-hand drive produced for the first time for South Africa at Flat Rock Assembly Plant in Michigan, USA

You don't have to be a petrolhead to have your head turned by the all-new Ford Mustang. And you may hear the distinctive growl of the Mustang's twin exhausts before you see it. The wait has been a long one for this iconic muscle car, but the galloping steed emblem is finally back on local shores.

Originally engineered for straight-line speed, American muscle cars had big engines – mostly big block V8s – under the bonnet. They were loud, brash, high-performing gas-guzzlers; potent on the straight but short on cornering ability. With not much in the way of refinement, these high-performance muscle cars were the antithesis of their European counterparts. But they were so much fun to drive.

The Mustang has long had a devoted following, helped in part by film appearances, the most famous of which was the 1968 movie *Bullitt* with its epic car chase scene. The green V8 Ford Mustang GT fastback used in that movie developed such a cult following that Ford even produced two *Bullitt* editions of the Mustang.

Mustang convertible with 13% increased torsional stiffness.

## A legend reborn

Retaining the mystique and American brawn of those original muscle cars, refining handling ability, and incorporating power, performance and fuel efficiency that today's drivers have come to expect must have been no easy task, but the new Mustang delivers on all accounts.

The essence of that iconic car from the 60s has not been lost. The lower and wider new pony car is a modern interpretation of the Mustang but it still sports the legendary sports-car-like coupé design with its long hood housing an elevated, muscular centre streak and short, sloped rear deck and distinctive tail lights so essential to the design DNA. Yet even while the car is more sculptured and curved, it has lost nothing of its potent muscular authority or aggressive form clearly evident from its shark-bite grille.

And it's not only good looking on the outside. The aviation-inspired cockpit is crisp and uncluttered, sporting dials and switches reminiscent of those in a race car. And it has all the latest tech, from phone connection and dual USB slots, to an 8" touch screen, selectable drive modes, reverse camera and navigation. The Mustang even has Track Apps for on-track performance and in the V8 manual, Launch Control to get the most from the car off the line. The cabin is roomy up front but taller adults may find the rear a bit of a squeeze. The boot can accommodate two sets of golf clubs, according to Ford.

**Some cars look good, but can be disappointing to drive. Not so with this American muscle car.**

The legendary muscle car hits local shores with six variants, ranging from the manual 2.3-litre Fastback to the automatic 5-litre V8 convertible. Performance is part and parcel of the Mustang's history and the powertrains on the all-new pony car ensure that the new right-hand drive Mustang lives up to its heritage. Ford's iconic Mustang comes with either a 5.0-litre naturally aspirated V8 engine under the bonnet boasting 306kw and 530Nm – the 5.0 V8 GT Manual capable of galloping from 0 to 100 km/h in a mere 4.8 sec – or a 2.3-litre EcoBoost turbocharged engine with its 233kW of power and torque of 430Nm, mated to either a six-speed manual transmission or automatic transmission with paddle shifters.

## Far more than just looks

The car is a head-turner. From the pointing pedestrians

# TESTED:

| | Ford Mustang 2.3-litre EcoBoost Fastback Manual | Ford Mustang 2.3-litre EcoBoost Fastback Automatic |
|---|---|---|
| 0-100 km/h | 5.8 secs | 5.8 secs |
| Top speed | 239km/h | 239km/h |
| Power/Torque | 233kW/430Nm | 233kW/430Nm |
| Transmission | 6-speed manual | 6-speed SelectShift Auto with paddle shifters |
| Fuel consumption (claimed combined): | 8.2 litres/100km | 9.8 litres/100km |
| C02 emissions | 179g/km | 225g/km |
| Safety | Front, side and curtain airbags. | Front, side and curtain airbags. |
| Warranty/service Plan | 4 yr/120 000 km warranty 5yr/100 000km service plan | 4 yr/120 000 km warranty 5yr/100 000km service plan |
| Price (incl. VAT and $CO_2$ emissions tax): | Manual: R699 900 | Auto: R719 900 |
| Other models | 5.0 V8 GT Fastback Manual R819 900 | 2.3 EcoBoost Convertible Automatic R779 900<br>5.0 V8 GT Fastback Automatic R839 900<br>5.0 V8 GT Convertible Automatic R899 900 |

Ford SA's most powerful and fastest-accelerating car – the 5.0 litre V8 Mustang.

whose heads whip around at the sight or sound of the car, to the fellow highway driver who strains to pull alongside you to take a picture or let you know what a cool car you drive.

So, if this is how the general public reacts to just seeing this iconic pony car, you would be right if you thought those same emotions are experienced behind the wheel. Given the hype that the car had generated as one of the most anticipated launches of recent years, expectations were high. Some cars look good, but can be disappointing to drive. Not so with this American muscle car.

Of the six-model line-up, my pick was the 2.3-litre manual Fastback for its affordability and for an engaging driving experience. It was a good pick. Everything about how it rides, sounds and steers gets the tick.

It might not be the V8 but it is still all Mustang – not short on performance and very much a pure driving experience. It's a lighter, more refined and agile version of its predecessor. From the firm yet comfortable ride in the sport-style supportive leather seats, to the road feedback that is delivered through the effort-adjusted steering and the race-like gearbox with its shorter, somewhat notchy, yet precise gearing. And there is none of that back-end hopping in the turns that its 60s predecessor was famous for. A lighter, stiffer body, independent rear suspension – plus splitters and air dams below the front fascia that help reduce air under the car – has put paid to that so now it's grippy and handles twists and turns with grace. This rear-wheel-drive Mustang is planted. And it's a car that many would be happy to drive all day, every day.

The 2.3 auto might make more sense as an everyday car in traffic conditions, but for a pure, engaging driving experience, the manual is a must-have. That's not to say the auto is not dynamic. It is. But besides being more Mustang-like to drive and allowing more exhaust rumble, the manual's substantially more fuel-efficient than the auto version as my testing of both these variants proved.

The all-new Ford Mustang is not only a dynamic every day drive, it's a value drive too. Who would have thought you could bag this iconic pony car for under R700 000, or the legendary V8 for under R1m?

This is a car whose wheel you can't wait to get behind, pump up the music and just drive and drive and drive. Oh, and did I forget to mention that this performance steed has a real handbrake? Such a relief from those blessed electronic buttons that give you no stopping backup, nor allow for handbrake turns. ■

**editorial@finweek.co.za**

Aviation-inspired cockpit only let down by the fake aluminium switches.


Distinctive DNA: Mustang's famous three-dimensional tri-bar tail lights.

## on the money quiz & crossword

Congratulations to Phuti Mahanyele for winning the copy of GG Alcock's *KasiNomics* for getting all the answers right in a recent quiz! This week we're giving away scenario planner Clem Sunter's *Flagwatching – How a fox decodes the future* to one lucky reader. To enter, complete the online version of this quiz, accessible via fin24.com/finweek from 18 January.

1 **True or false?** Senzeni Zokwana is the SA minister of trade and industry.

2 Who or what is El Chapo?
- The Brazilian navy's newly christened aircraft carrier
- A city in New Mexico, USA
- A Mexican druglord

3 Who is the Western Cape ANC chairman?

4 **True or false?** The ANC's 104th anniversary celebrations were held in Durban.

5 Which bank recently cancelled its R250m loan facility to SAA?
- The South African Reserve Bank
- Citibank
- Investec

6 Of which country is Sana'a the capital?

7 **True or false?** #FeesMustFall protests resumed as students around SA started registering for the new academic year.

8 **True or false?** The late David Bowie was American.

9 **True or false?** Matt Damon won Best Actor in a Drama at the 2016 Golden Globe Awards for his performance in *The Revenant*.

10 Gareth Cliff was recently fired from a popular reality entertainment show. Name this show.

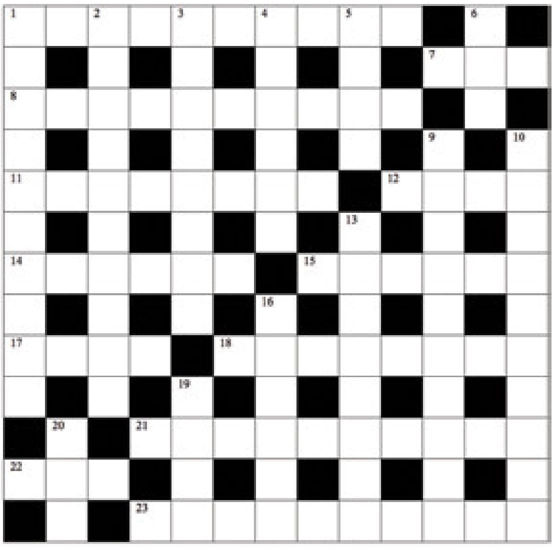
### CRYPTIC CROSSWORD 615 JD

**ACROSS**

**1** Give notice to clergyman (10)
**7 & 22** What one has to stop to prevent the situation getting worse (3,3)
**8** European national upset rogue deal (10)
**11** Thankful to have again settled in England (8)
**12** Record of original company emblem (4)
**14** Virtually as good as (6)
**15** He slipped up (6)
**17** Fairy tale about a hundred insects (4)
**18** About time a fellow doctor attended burial site (8)
**21** Favour having hot curry in cold storage! (4,6)
**22** See 7
**23** Irregular to dry soldier out (10)

**DOWN**

**1** I'm told rightly about scratch opponents (10)
**2** Hinder cleaner getting round Royal monument (6,4)
**3** Rene's new sort of cuisine (8)
**4** Add zest to rare dish (6)
**5** Be careful in this street (4)
**6** Doctor, say, with an expression of triumph (3)
**9** Sort of Clue Three about to accept one living in centre of city (10)
**10** Third party insurance (10)
**13** Upped the conversion rate (8)
**16** Tick off address (4,2)
**19** Present suppliers to Master Joe (4)
**20** Utensil from the West, right? Wrong! (3)



**Solution to Crossword NO 614 JD**

**ACROSS:** 1 Magnificent; 9 Ilk; 10 On a charge; 11 Terai; 13 Neo-Nazi; 14 Nagami; 16 Assign; 18 Upscale; 19 Credo; 20 Screwball; 21 Old; 22 Predominate

**DOWN:** 2 & 21 Ask out; 3 Naomi; 4 Flaunt; 5 Cahoots; 6 Normalise; 7 Distinguish; 8 Design loads; 12 Registrar; 15 Miaowed; 17 Becalm; 19 Colon; 21 See 2

# On margin

## The Russians
The President of Coca-Cola makes a phone call to Russian President Vladimir Putin. "Mr Putin, I have noticed that you have changed the Russian anthem. Do you have any plans to change the flag as well? If you return to the previous purely red flag, we can put our Coca-Cola trademark in a corner and solve all your problems with government salaries for a few years?"

Putin puts the call on hold and asks his colleague: "Hey, when does our contract with Aquafresh end?"

## The Irish
An Irishman is struggling through a winter gale with a friend when he collapses clutching his heart. "Quick," says the Irishman. "I'm dying. Get me a Rabbi."

"What do you mean, a Rabbi?" says his friend. "You've been a Catholic all your life."

"I know," says the Irishman. "But I wouldn't like to drag the Father out on a night like this."

## Retirement
Two old ladies are having lunch in a restaurant. One complains, "You know, the food here is just terrible."

The other shakes her head and adds, "And such small portions."

## One-liners
I never make the same mistake twice. I make it five or six times, just to be sure.

I'm on a whiskey diet. I've lost three days already. **– Tommy Cooper**

The Great Wall is among Seven Wonders of the World because it is the only Chinese product that lasted for more than four weeks.

Imagine what it must feel like for Chinese tourists bringing home MADE IN CHINA souvenirs from every country they visit.

I recently took up meditation. It beats sitting around doing nothing.

A man walks into a bar with a roll of tarmac under his arm and says: "Pint please, and one for the road."

The liberals can understand everything but people who don't understand them. **– Lenny Bruce**

Here's some advice: At a job interview, tell them you're willing to give 110%. Unless the job is a statistician. **– Adam Gropman**

"Well done! Now close the deal! Close the deal!"

## Verbatim

**Chester Missing** @chestermissing
US Powerball lottery is on $1.4 billion. SAA should buy itself a ticket.

**Daniel Carrillo** @DanielRCarrillo
Marriage is just texting each other "Do we need anything from the grocery store?" a bunch of times until one of you dies.

**Trevor Noah** @Trevornoah
Video game difficulty settings should be –
1. Full-time job
2. Part-time job
3. Unemployed

**WITH THE RAND HITTING ANOTHER RECORD LOW AGAINST THE DOLLAR IN A FLASH CRASH ON 11 JANUARY, SOME TWITTERATI COMPILED THE FOLLOWING PLAYLIST FOR OUR EMBATTLED CURRENCY:**
**#TheRandListeningTo**

"For whom the bell tolls"
**– Metallica via** @gevaaalikdotcom

"You ain't seen nothing yet"
**– Bachman Turner Overdrive via** @Sinbad2000

"Sugar, We're Goin' Down"
**– Fall Out Boy via** @kitchendutch

"It's a sad, sad situation"
**– Elton John via** @steynw76

"That long black cloud is comin' down
I feel like I'm knockin' on heaven's door"
**– Bob Dylan via** @watkykjy

"Well, I've been down so goddamn long
That it looks like up to me"
**– The Doors via** @kitchendutch

**"He may look like an idiot and talk like an idiot but don't let that fool you. He really is an idiot."**
– Groucho Marx, American comedian and film and television star (1890-1977)

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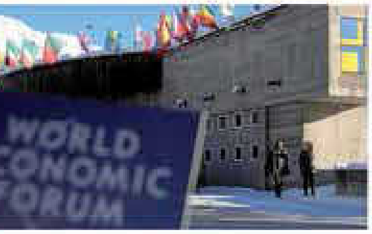
Watch CNBC Africa, as we cover the annual meeting in Davos-Klosters, which remains the foremost creative force for engaging the world's top leaders in collaborative activities focused on shaping the global, regional and industry agendas.

**CNBC Africa, DStv Channel 410**





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